Cochlear
Hear now. And always

Cochlear Limited
Annual Report 2022

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.

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

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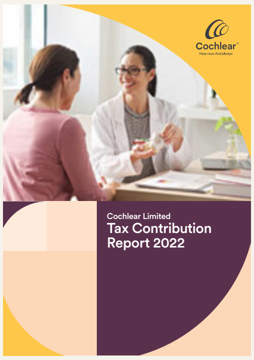
2022 shareholder reports

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



Front cover

Lou Ferrigno, Cochlear™ Nucleus® System recipient. Find out more about Lou's Cochlear journey on page 41.

Our story

For over 40 years Cochlear has been bringing people all over the globe into the world of sound.

Professor Graeme Clark, an Australian ear surgeon, saw first-hand the isolation and frustration that comes from living in a world of silence as his father struggled with hearing difficulties. On holiday in 1977, fiddling with a shell and a blade of grass, Graeme realised there was a safe way to insert electrodes into the inner ear. It was Graeme's determination to help others that realised our first implantable solution, reconnecting Rod Saunders to hearing and bringing music into his life.

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

Today, Cochlear is the leader in implantable hearing solutions, connecting hundreds of thousands of people globally to a life full of hearing. The pioneering spirit that started Cochlear all those years ago continues to drive us forward and our commitment is stronger than ever. We're transforming the way people understand and treat hearing loss, and we're committed to reaching more people to provide support for a lifetime of hearing.

About this report

The annual report has been prepared in accordance with the IFRS Foundation's Integrated Reporting Framework, which we use to clearly articulate how we aim to deliver long-term sustainable value for all our key stakeholders.

Our company

About Cochlear

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

Cochlear commenced operations in 1981 as part of the Nucleus group and in 1995 listed on the Australian Securities Exchange. Today, it is a Top 50 listed Australian company with a market capitalisation of over $13 billion.

We aim to improve awareness of and access to implantable hearing solutions for people indicated for our products. We have provided more than 700,000 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 around 12% of sales revenue each year in R&D, with over $2 billion invested since listing, 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 close to 4,500 employees.

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

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

Our mission

We help people hear and be heard.

We empower people to connect with others and live a full life.

We transform the way people understand and treat hearing loss.

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

Cochlear at a glance

Business segments

57% Cochlear implants*

Cochlear implant systems

31% Services*

Sound processor upgrades, accessories & other

12% Acoustics*

Bone conduction systems and sound processor upgrades

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

Cochlear™ Nucleus® 7 Sound Processor

Cochlear™ Nucleus® Kanso® 2 Sound Processor

Cochlear™ Osia® 2 System

Cochlear™ Baha® 6 Max Sound Processor

Global sales

>$1.6b
in sales revenue

~80%
Developed markets*

~20%
Emerging markets*

48%
Americas*

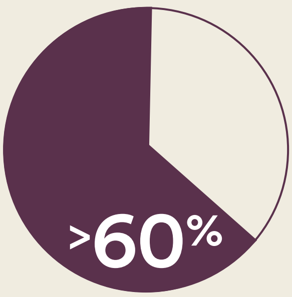
35%
EMEA*

17%
Asia Pacific*

Market leader

$200m+
in annual R&D

700,000+
implants sold***



global market share**

Growing scale

~4,500
employees

100+
collaborative research programs

30+
countries with direct operations

6
key manufacturing sites

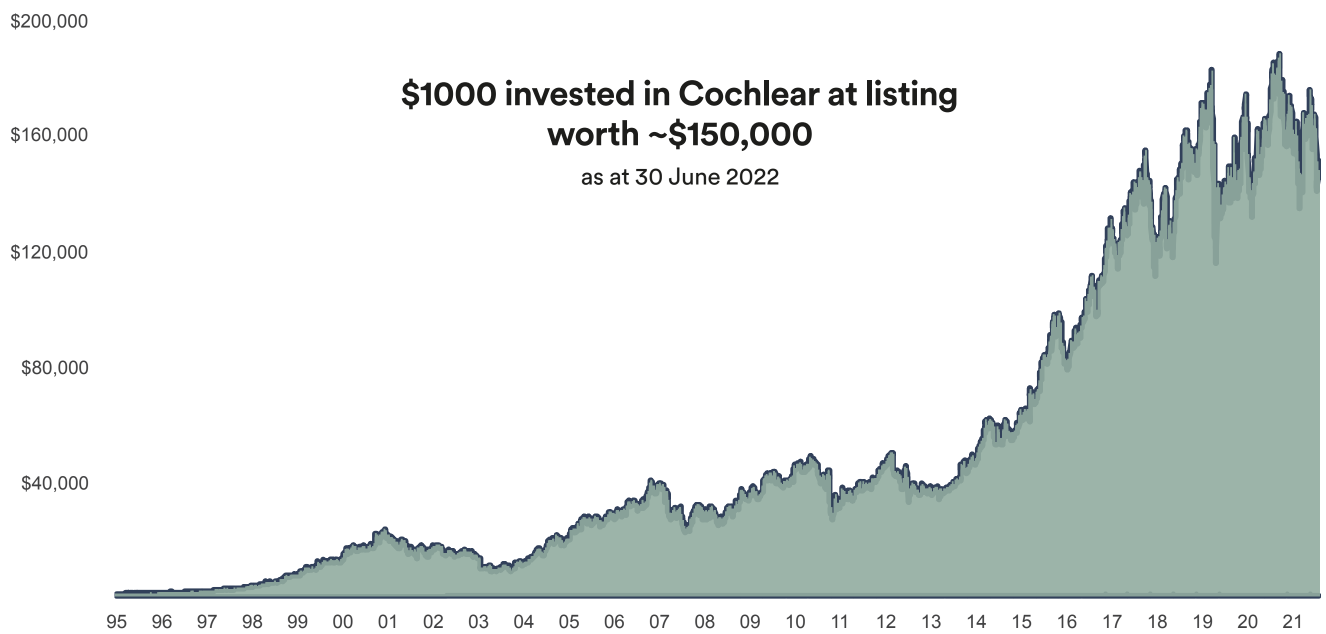
* Based on sales revenue. ** Based on Cochlear estimates for cochlear implants. *** Includes cochlear and acoustic implants.

Our company

Investment proposition

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

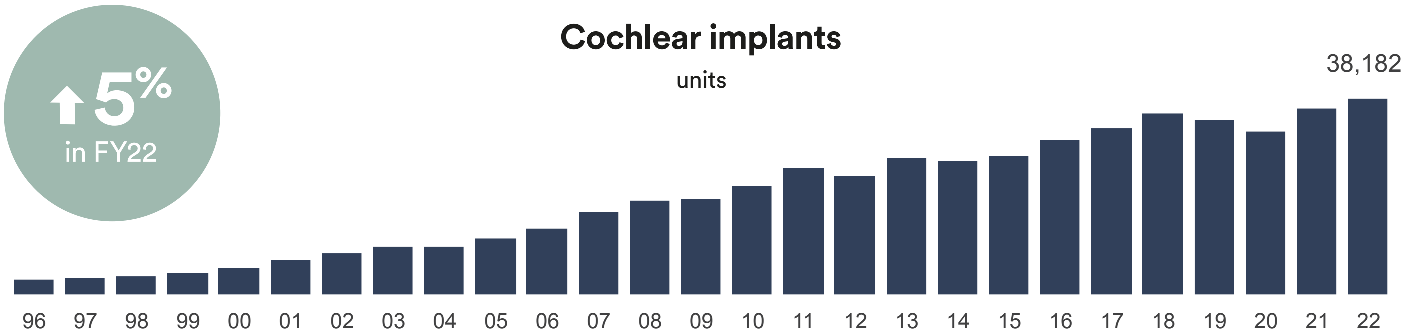
- **Global leader** in implantable hearing solutions for over 40 years with over 60% global market share and more than 700,000 devices sold
- **Long-term market growth opportunity** with a significant, unmet and addressable clinical need for implantable hearing solutions and less than 5% market penetration
- **Unrivalled commitment to product innovation**, bringing innovative new products and services to market as well as sound processor upgrades compatible with prior generation implants
- **Growing income stream** from servicing our expanding recipient base
- **Strong free cash flow generation** provides funding for market growth activities and R&D as well as the ability to reward shareholders with a growing dividend stream

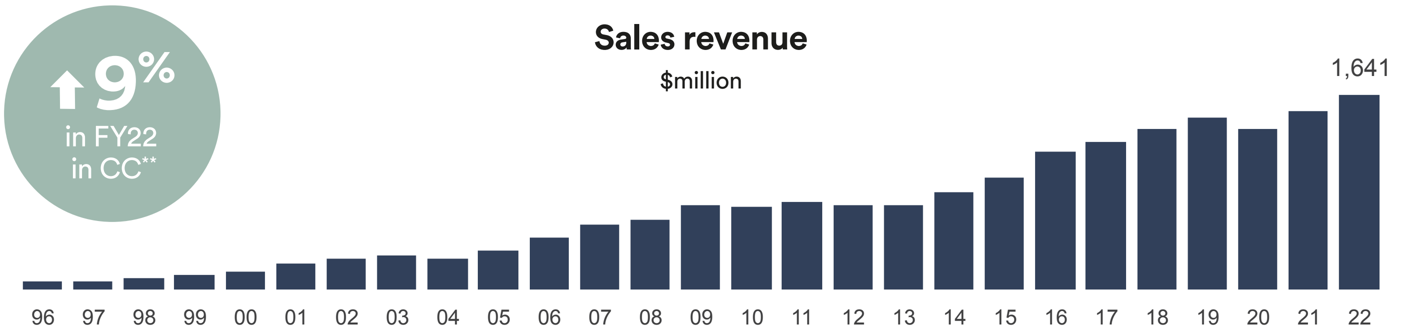


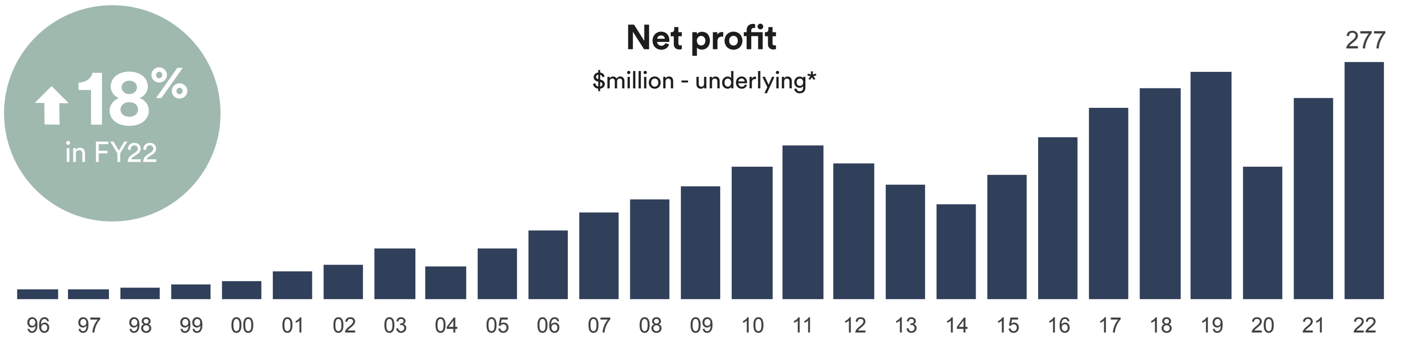
Cochlear total shareholder return since listing

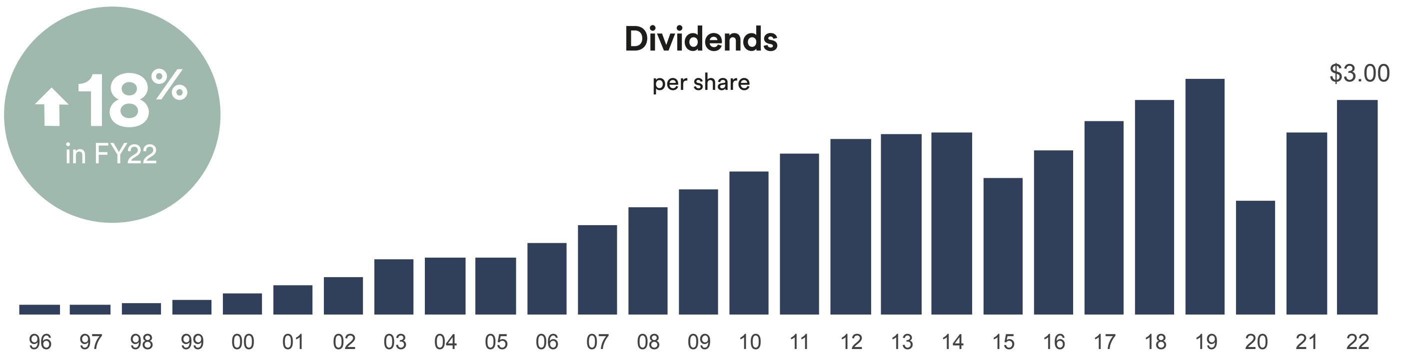
Financial history

Cochlear has a long track record of delivering growing sales revenue, profits* and dividends.









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

How we create value

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

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

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

Our mission

The passion that drives the organisation and focuses the strategy

We help people hear and be heard

We **empower** people to connect with others and live a full life

We **transform** the way people understand and treat hearing loss

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

Our strategy

Where we focus our time and resources to create value

The factors driving industry growth

Our growth opportunity is compelling and has remained unchanged for many years.

Growth opportunity

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

How we focus our resources

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

Strategic priorities

- Retain market leadership
- Grow the hearing implant market
- Deliver consistent revenue and earnings growth

Value creation

How the outcomes of our activities impact all key stakeholders - our customers, our people, our shareholders and society more broadly

The pillars that set the foundation for success

To be successful over the long term, our organisation needs to be strong, agile and sustainable to enable us to execute our strategy, support our customers and deliver on our growth ambitions.

A stronger organisation

Shaping our culture

Creating value sustainably

Being agile and efficient

The key inputs to creating value

Customers & communities

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

Innovation

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

People

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

Financial & environmental

Prudent management of financial capital and responsible production and consumption underpin the delivery of sustainable growth over time.

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

A healthier & more productive society

Delivering societal benefit through improved health outcomes, educational cost savings and productivity gains.

Empowered customers

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

A lifetime of hearing solutions

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

Thriving people

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

Sustained value

Maximising spending to grow the market while maintaining our competitive position.

Agile, efficient and environmentally responsible business processes to support our growth ambitions.

FY22 highlights

In FY22, we helped over 40,000 people hear with one – or two – of our cochlear or acoustic implants, providing an estimated net societal benefit of more than $6 billion over the lifetime of the recipients from improved health outcomes, educational cost savings and productivity gains.[1]

FY22 value creation

A healthier & more productive society

Helping more people hear

- We helped over 40,000 more people hear with one – or two – of our cochlear or acoustic implants

Developing a treatment pathway for adults

- The World Health Organization provided guidance for establishing evidence-based programs for hearing screening[2] aimed at improving the identification and treatment of hearing loss
- The 'Living guidelines' initiative was established to deliver clinical guidelines to enable early identification and referral for cochlear implant candidates

Broadening indications and reimbursement

- Achieved FDA approval for the treatment of unilateral hearing loss and single-sided deafness with a Cochlear™ Nucleus® implant in the US
- Achieved reimbursement for the Cochlear™ Osia® 2 System across a number of countries including the US, Germany and UK
- Achieved reimbursement for remote programming in Australia

Improving access to education

- Formed a partnership[3] with Malala Fund aimed at removing hearing loss as a barrier to education in emerging markets

Empowered customers

Providing convenience and confidence to customers

- We became the first company to offer app-based Remote Care solutions to both acoustic and cochlear implant recipients
- Cochlear™ Remote Assist achieved FDA approval, enabling live video appointments for both cochlear implant and Baha® Implant recipients

Growing connectivity and engagement with recipients

- Cochlear Family membership grew 20% to 260,000, with a 60% join rate for new Cochlear™ Nucleus® implant recipients

A lifetime of hearing solutions

Market-leading technology underpins over 60% global market share

- Invested over $200m in R&D, 13% of sales revenue, with many new products and services achieving regulatory approval over the past few years across all parts of the portfolio

Providing the latest technology to our existing customers

- The Cochlear™ Nucleus® 8 Sound Processor achieved CE Mark approval in August 2022
- Strong demand experienced for the new Cochlear™ Baha® 6 Max Sound Processor
- Launched the Cochlear™ Nucleus® 7 S and Nucleus® 7 SE Sound Processors across the emerging markets

Australian cochlear implant pioneer honoured as 2021 NSW Scientist of the Year

- Professor Jim Patrick, Cochlear's Chief Scientist – Emeritus, recognised for his extraordinary contribution to science

Thriving people

Shaping our culture

- Continued to roll out a range of training and leadership development programs
- Employee engagement maintained at 80%

Broadening incentives to benefit more employees

- Introduced changes to our reward offering to achieve greater alignment and consistency of reward across the business

Gender equality

- Women in senior and executive management roles increased to 41%, exceeding our 40% target
- 33% women on the Board of directors, with the transition in August 2021 to our first female Chair

Reconciliation Action Plan

- Formalised our commitment to recognition and reconciliation through our first Reconciliation Action Plan

Sustained value

Strong financial position

- Delivered record sales revenue of $1,641m, up 9% in CC*
- Underlying net profit** of $277m, up 18% on FY21 and within the guidance range
- Full year dividends up 18%, with the payout in line with the 70% target

Investing to build scale

- Agreement to acquire Oticon Medical, Demant's hearing implant business for ~A$170m

Emission reduction targets

- Established net-zero emissions targets with net-zero in our operations (Scope 1 and 2) by FY30 and across our value chain (Scope 1, 2 and 3) by FY50
- Manufacturing at 5 of our 6 facilities transitioned to 100% renewable energy

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

Alison Deans, Chair

Dig Howitt, CEO & President

Letter to shareholders

We are pleased to report strong growth in sales revenue and profitability with all regions and product segments tracking above pre-COVID levels. We continued to invest in research and development (R&D) and awareness and access activities with good progress made across the key value drivers.

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

Operational and financial review

We experienced improving momentum across the year as surgeries recovered following COVID shutdowns. Cochlear implants, however, continued to experience variability in performance across countries with COVID and hospital staffing shortages impacting operating theatre capacity.

Record sales revenue of $1,641 million, up 10% (9% in constant currency*), was driven by strong demand for acoustic implants and sound processor upgrades with all regions and product segments tracking above pre-COVID levels.

Underlying net profit** increased 18% (10% in CC) to $277 million, within the guidance range of $265-285 million, and with an underlying net profit margin of 17%. Excluding the impact of cloud computing-related expenses, the underlying net profit margin was 18%, in line with our long-term target. Statutory net profit of $289 million benefited from $12 million in one-off gains.

Strong cash flow generation supports the 18% increase in full year dividends. The dividend payout of 71% of underlying net profit is aligned to our 70% target payout.

* Constant currency (CC) removes the impact of foreign exchange (FX) rate movements to facilitate comparability of operational performance.
** Excluding one-off and non-recurring items (refer page 59).

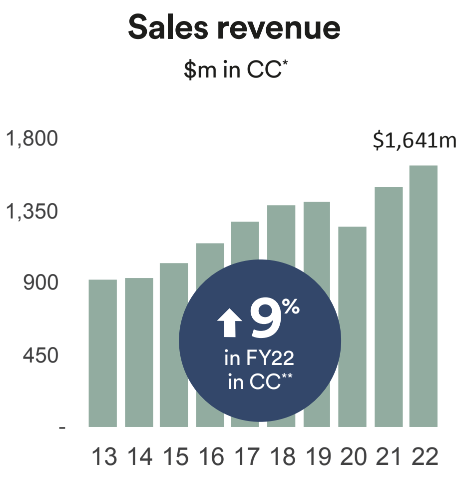
Creating long-term value

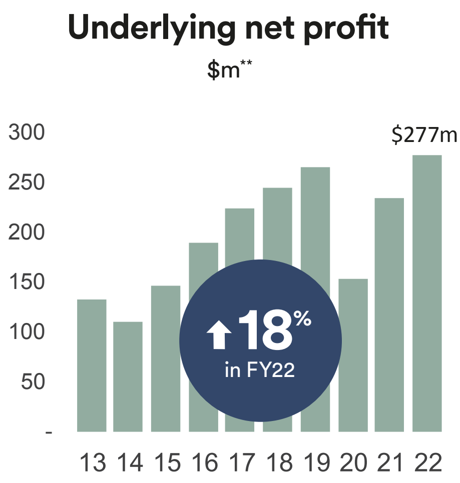
Our goal is to deliver value by helping more people to hear, which contributes to building a healthier and more productive society.

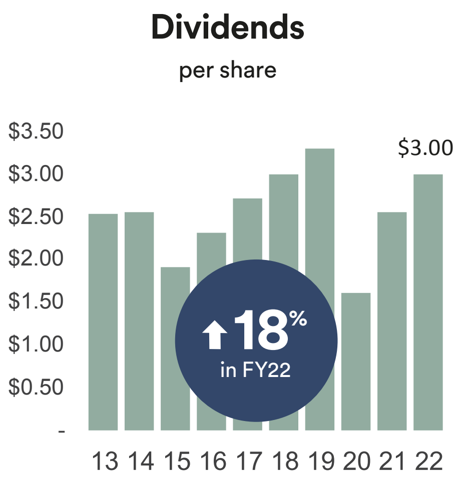
Our value creation model demonstrates how our business creates value over the long term. For us, this means describing the outcomes of our activities in broader terms than just the progress against our strategic priorities and the financial returns we generate. Genuine value creation describes the impact we have on all our key stakeholders – our customers, our people, our shareholders as well as society more broadly.

The following pages describe how the key inputs into our business – our customers and communities, our innovation capability, our people and financial capital – create value.

We believe success will be defined by building a healthier and more productive society, having empowered customers, providing a lifetime of hearing solutions for our recipients and having thriving employees. Doing these things well should enable us to achieve sustainable financial returns over time.







A healthier & more productive society

We are focused on building a healthier and more productive society, delivering societal benefit through improved health outcomes, educational cost savings and productivity gains. We do this by transforming the way people understand and treat hearing loss through awareness and access activities.

Helping more people hear

In FY22, we helped over 40,000 people hear with one – or two – of our cochlear or acoustic implants, providing an estimated net societal benefit of more than $6 billion over the lifetime of the recipients from improved health outcomes, educational cost savings and productivity gains.[1]

Over the past few years, we have been expanding our programs for driving growth of the adults and seniors segment through direct-to-consumer (DTC) marketing activities and building referrals from hearing aid and ENT (ear, nose and throat) clinics. We have expanded our DTC activities to over 20 countries and increased the sophistication of targeting and nurturing candidates from awareness through to surgery. As a result, we are attracting more high-quality candidates and seeing improvements in the time to surgery.

The Cochlear Provider Network and Sycle business in the US help educate hearing aid audiologists of the indications and benefits of cochlear implants and continues to provide a growing number of referrals. We are taking the learnings from the US and developing referral networks in other countries, with a focus on helping our partners in the hearing aid channel identify and refer potential patients.

Developing a treatment pathway for adults

An important long-term goal for us is to support the development of a consistent process by which all healthcare professionals diagnose, refer and treat adults eligible for cochlear implants. This goal is supported by the growing recognition that hearing is an essential part of healthy ageing and treating age-related hearing loss is cost-effective.

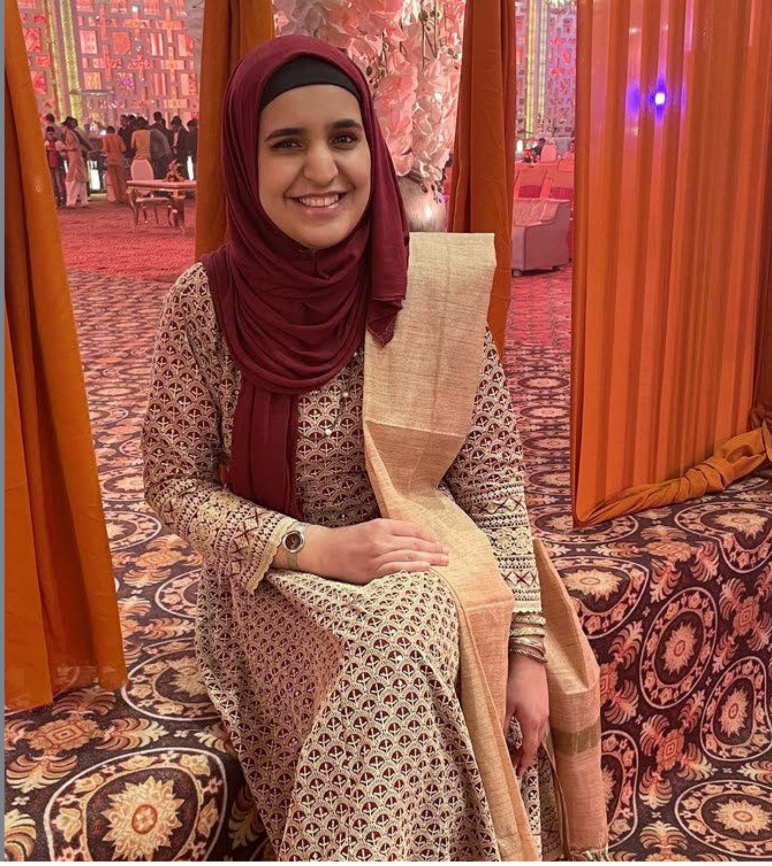
In 2021, the World Health Organization (WHO) provided guidance for establishing evidence-based programs for hearing screening[2] aimed at improving the identification and treatment of hearing loss in target age-groups, including adults.

And in 2022, the ‘Living Guidelines’ initiative was established, an international taskforce of over 50 leading cochlear implant professionals, academics and cochlear implant users tasked with delivering clinical guidelines to enable early identification and referral for cochlear implant candidates. The initiative aims to create guidelines that can be adapted and adopted in country to optimise the care for adults eligible for cochlear implants.

Cochlear and acoustic implants contribute to building a healthier and more productive society.

Mahrukh is a bilateral cochlear implant recipient and works as an obstetrics and gynaecology doctor in Delhi. When Mahrukh was young, she didn't believe she could be a doctor because she hadn't seen, read or heard of a doctor with disabilities.

With encouragement from her teachers, Mahrukh studied medicine in India even though Hindi is not her first language. She is now thriving and has become a passionate advocate, hoping to inspire others with hearing loss to see medicine as a possible career path.



Broadening indications and reimbursement

Market access activities have been focused on expanding indications and reimbursement for our products. In January, Cochlear obtained FDA approval for the treatment of unilateral hearing loss and single-sided deafness (SSD) with a Cochlear™ Nucleus® implant in the US. This approval expands the addressable market with around 60,000 people in the US acquiring SSD every year.[3]

We also achieved reimbursement for the Cochlear™ Osia® 2 System in a number of countries, including the US, Germany and UK.

In Australia, following advocacy from a coalition of cochlear implant recipients, surgeons, audiologists and service providers, the Australian Government introduced reimbursement for remote programming of auditory implants including cochlear and bone conduction implants under the Medical Benefits Schedule. This change will empower both implant recipients and clinicians by improving the availability of programming options that are not face to face and creating flexibility in how care can be accessed and provided.

Improving access to education

The emerging markets is an important segment, with a primary focus on children. While this segment has been growing rapidly, penetration rates remain very low. We know that if children with hearing loss do not receive support early in life, they often experience lower performance at school and ultimately this can impact economic outcomes over their lifetime.

We are focused on building awareness in these markets of the importance of addressing hearing health through public education campaigns, and on improving the rates of hearing screening for children.

In September, we announced a partnership[4] between Cochlear Foundation and Malala Fund with the joint aim of removing hearing loss as a barrier to education. We hope this partnership will raise awareness of the need for governments and societies to prioritise hearing health in children. In doing so, children with hearing loss will be empowered to connect with life's opportunities on a more even playing field.

Empowered customers

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

Providing convenience and confidence to customers

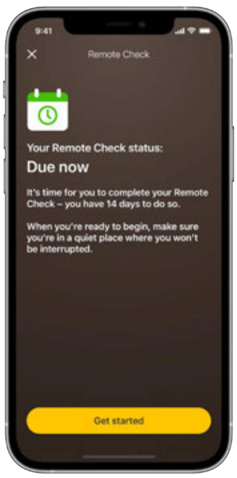
Continuing our history of meaningful innovations that make a difference in people's lives, we are the first company to offer app-based Remote Care solutions to both acoustic and cochlear implant recipients. This means that recipients can conveniently access care from their clinician without a clinic visit – from home, at work, or when travelling. Remote Care is available through two solutions, Cochlear™ Remote Check and Cochlear™ Remote Assist, which achieved FDA approval in October.

With **Cochlear™ Remote Check**, cochlear implant recipients can complete a hearing health check through the Nucleus® Smart App without visiting the clinic. Their clinician can then review the results at a convenient time to determine if they are performing as expected or need follow-up.

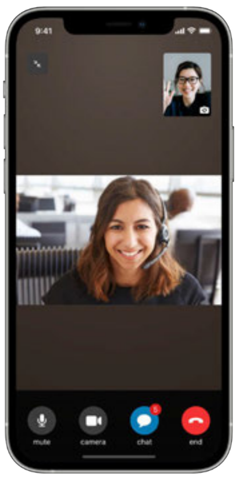
Cochlear™ Remote Assist enables live video appointments for both cochlear implant and Baha® Implant recipients. The clinician can assess how the recipient is progressing and discuss any issues they are experiencing. The clinician can also connect remotely to the recipient's sound processor to make adjustments or enable features in real-time.

COVID has accelerated use of smartphone technology by adults and seniors, including video calling. It has also changed the way recipients think about care delivery with most adults with hearing loss, when surveyed, saying they would use remote care if it was offered by their clinician.[6]

By offering app-based Remote Care solutions, we are meeting a recipient need and making care more convenient. We are also assisting our professional partners to increase clinic efficiency, providing greater flexibility and allowing clinicians to see more patients, including new candidates.



Cochlear™
Remote Check



Cochlear™
Remote Assist

Remote Care solutions empower our customers.

Katie is a cochlear implant recipient with a Cochlear™ Nucleus® 7 Sound Processor. She has a busy life as a physiotherapist with two young children and she enjoys swimming, running and cycling.

With the new Cochlear™ Remote Check, Katie is now able to do a hearing health check from home. It saves her two hours of time travelling to her audiologist's clinic, enabling her to better balance maintaining her hearing care with her busy lifestyle. Katie can complete the check when it's convenient for her and she doesn't have to complete all the activities at the same time.

"Having Remote Check is really convenient. You can do it in the comfort of your home environment, when you want to do it. It takes away the stress of having to go all the way to the clinic."

Growing connectivity and engagement with recipients

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

Membership continues to grow rapidly, increasing by 20% over the last 12 months, to 260,000 members with a 60% join rate for new Cochlear™ Nucleus® implant recipients. An acceleration in recruitment in recent years has been driven by a combination of direct outreach programs and improvements in customer onboarding.

Elena, Cochlear Nucleus System recipient

A lifetime of hearing solutions

We innovate to build a market-leading portfolio of products and services that supports a lifetime of hearing outcomes for recipients. We have achieved this through a multi-decade philosophy of investing to grow and an unwavering commitment to innovation. Our market-leading technology underpins our global market share of over 60%, and in FY22 we invested over $200 million in R&D, representing 13% of sales revenue.

Providing the latest technology to our existing customers

The **Cochlear™ Nucleus® 8 Sound Processor** achieved CE Mark approval in August 2022. Commercial availability commences in European countries over the coming months and is expected to be launched across other markets by the end of 2022, subject to the timing of regulatory approvals.

The **Cochlear™ Baha® 6 Max Sound Processor** was launched in the second half of FY21 with strong demand experienced for the new sound processor. The Baha 6 Max Sound Processor provides a fitting range of up to 55 dB sensorineural hearing loss in the same small size as current 45 dB devices, with longer battery life and direct streaming from both Android™ and Apple devices.

In late 2021 we launched the **Cochlear™ Nucleus® 7 S** and **Nucleus® 7 SE Sound Processors** across the emerging markets, providing many of the benefits of our latest technology platform to more people around the world.

Michelle, Baha 6 Max recipient

Our products and services provide a lifetime of hearing outcomes for recipients.

Jack lost his hearing at age 11 as the result of a bacterial infection. He received his Cochlear™ Nucleus® 22 implant a year later, in 1988. For the past 34 years Jack has upgraded his external sound processor to the latest technology at every opportunity, most recently in October 2020 when he got his Cochlear™ Nucleus® 7 Sound Processor.

Jack is grateful that Cochlear makes modern technologies compatible with legacy implants like his. Each sound processor upgrade ensures that Jack keeps pace with lifestyle changes and his working needs. "Each advancement in the technology puts in my hands access to tools or methods by which I can hear more clearly and with less effort. Without a doubt, my quality of life improves."

Australian cochlear implant pioneer honoured as 2021 NSW Scientist of the Year

Professor Jim Patrick, Cochlear's Chief Scientist – Emeritus, and one of the original engineers to pioneer the development of the multi-channel cochlear implant, was named the 2021 NSW Scientist of the Year. The award recognises and celebrates the extraordinary contribution that NSW scientists and engineers make to our everyday lives.

In 1981, Jim was a member of the Cochlear 'Tiger Team' tasked with developing a clinically applicable cochlear implant. As a long-time member of Cochlear's senior team, Jim held a number of technology management roles, including responsibility for R&D, Quality and Manufacturing.

NSW Chief Scientist & Engineer Professor Durrant-Whyte said Jim is "not only a giant in health technology, but an exemplar of how a great idea can be translated into a highly successful commercial outcome, while delivering ongoing benefits to society."

Professor Jim Patrick, Cochlear's Chief Scientist – Emeritus

We are proud and humbled by the work of Professor Jim Patrick and the early innovators who commercialised the first multi-channel cochlear implant, founding a business that employs close to 4,500 people today.

Thriving people

Our people are our most valuable asset and are an engaged, capable and high-performing team that delivers on our strategy and supports the creation of sustained value. We have a diverse workforce with close to 4,500 people across the globe. Their knowledge, expertise, passion and focus on delivering excellence is key to achieving future success.

Shaping our culture

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

Over the past few years, we have introduced a range of training and leadership development programs to evolve our organisational culture to ensure it continues to support our business strategy and long-term growth goals.

We are pleased to report that overall employee engagement continues to remain strong at 80%, with 91% of employees reporting that they feel proud to tell people they work at Cochlear and 94% understanding how they contribute to the satisfaction of our customers.

80%
Employee engagement

Broadening incentives to benefit more employees

Our total reward framework is an important part of building a strong and cohesive culture. In FY22, we introduced changes to our reward offering to achieve greater alignment and consistency of how we reward employees across the business.

The key highlights include aligning employees to the global short term incentive plan, ensuring more of our employees have some form of performance-based reward, and introducing a new global employee share plan.

These changes support our cultural priorities, improve our market competitiveness to ensure we are able to attract and retain talent across all the markets in which we operate, and provide an opportunity for our employees to own shares in the company and be part of our future success.

A focus on career development and internal promotion helps build thriving people.

Melinda joined Cochlear 13 years ago as an Engineering Intern with a desire to grow in a dynamic and collaborative environment and contribute to the health and well-being of society. She believes that rotating through different departments is a fantastic way to get a glimpse of the career possibilities ahead.

Melinda is currently a Professional Marketing Manager for our Australia & New Zealand team. She credits her growth and success to understanding her strengths, building supportive networks across the organisation and having a realistic action plan to develop her skills. Reflecting on her experience, she says, "I have developed from a quiet achiever to a people leader because of the career opportunities at Cochlear."

Gender equality

Achieving gender equality is one important element of our Diversity and Inclusion strategy. We strive for a gender balance of 40:40:20, which means that 40-60% of either gender is represented (40% women, 40% men, 20% open).

By year end we achieved 41% female representation amongst our senior leaders, exceeding our 40% target 18 months ahead of expectations. And at Board level, the target of at least 30% female representation on the Board was achieved in FY21, with 33% female directors by year end.

Achievement of this target is supported by focused activities in the areas of talent and succession planning and talent acquisition, with the aim of increasing our pipeline of female talent.

A range of additional activities and policies recognised as key enablers to gender equality continue to be implemented to support improved access to work for all employees. These include a focus on continuing to embed flexible working for employees globally, further deployment of our inclusive leadership programs with a focus on unconscious bias education for all leaders, and continuing work to ensure gender pay equity across our global workforce.

Support and flexibility

We are committed to ensuring the safety and wellbeing of our people. We also support our employees in better integrating their work and personal commitments so they can thrive at both work and home.

Flexible work is a foundational piece of our global Diversity and Inclusion framework and is key to supporting employee wellbeing by providing our people with different ways of working, no matter their life stage or responsibilities.

As employees return to the workplace following the easing of COVID restrictions, we are seeing a greater uptake of flexible working arrangements, which is working well, supported by the rapid evolution of our IT infrastructure to enable efficient and inclusive remote working capabilities.

We continue to educate and support our employees working in a hybrid work environment and have provided additional resources to support both physical and mental health, with a focus on staying connected to colleagues.

Board renewal

Over recent years we have continued our process of Board renewal, adding new directors with diverse perspectives and relevant experience, while maintaining continuity and corporate knowledge.

We are pleased with our recent appointments, with Christine McLoughlin, Michael Daniell and Michael del Prado adding valuable new perspectives to our Board discussions.

We look forward to working with Karen Penrose who joined the Board in July. Karen is a highly respected company director and Audit and Risk Committee Chair, having served on the boards of a number of ASX100 companies and experienced across health care, financial services, property and infrastructure industries. Prior to this, Karen had a distinguished executive career in senior leadership and Chief Financial Officer roles in financial services. Her skills and executive, board and governance experience will be invaluable to Cochlear and serve to further enhance the financial expertise of the Board.

We believe that our Board has an appropriate mix of skills and experience and as we consider ongoing renewal, we will continue to review the skills needed to best serve Cochlear now and into the future.

Reconciliation Action Plan

In December we proudly launched our first Reconciliation Action Plan (RAP). In recent years we have made some small but significant steps in advancing reconciliation and celebrating the unique and central role of First Nations peoples in Australia's past, present and future.

As a leading Australian company – and one with a mission to help people hear and be heard – we can and must do more. Our Reflect RAP formalises this commitment and sets out a pathway for us to explore opportunities to have real influence and impact. This includes helping to tackle the ear and hearing health gap between First Nations and non-First Nations Australians.

The Reconciliation Australia framework sets out four domains for action – relationships, respect, opportunities and governance. We have developed commitments and actions across these domains that reflect the unique opportunities and issues for Cochlear and our sector including supporting improvement of First Nations hearing and ear health, and healthcare support systems, and promoting Science, Technology, Engineering and Math (STEM) development and career pathways for First Nations students.

Other priority actions include improving employment opportunities and outcomes for First Nations peoples within Cochlear, increasing support for First Nations suppliers and working towards creating a culturally safe and welcoming workplace for First Nations peoples.

The Joy of Sound artwork by First Nations design agency, Balarinji, was commissioned by Cochlear to tell the story of our foundation and beginnings. It represents Professor Graeme Clark's determination to find a new and more effective way to treat hearing. It reflects our mission to help more people hear and be heard, to connect with others and live a full life.

Sustained value

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

Pathway to net-zero carbon emissions

We are committed to taking an active role in the global effort to tackle climate change, targeting net-zero emissions in our operations (Scope 1 and 2) by FY30 and across our value chain (Scope 1, 2 and 3) by FY50. Our carbon reduction strategy is aligned with the Science Based Target Initiative (SBTi) and is consistent with efforts to limit warming to 1.5 degrees above pre-industrial levels.

We have a relatively low level of carbon emissions as a business, with around 50% of total FY19 reported carbon emissions generated from Scope 3 – or indirect – emissions, with business flights our single biggest source of reported carbon emissions. For these Scope 3 emissions, we have a target of 50% reduction in business flight-related emissions by FY25. We are in the process of developing a complete Scope 3 inventory and will define our broader Scope 3 SBTi-aligned target by FY25.

Our targets reflect our strategy of transitioning to renewable energy as well as the broader global transition toward a net-zero economy. By the end of FY22, manufacturing at five of our six facilities had transitioned to 100% renewable energy, with the sixth transitioning in July 2022.

Underlying net profit increases 18% to $277 million

Underlying net profit** increased 18% (10% in CC) to $277 million, within the guidance range of $265-285 million, and with an underlying net profit margin of 17%. Excluding the impact of cloud computing-related expenses, the underlying net profit margin was 18%, in line with our long-term target. Statutory net profit of $289 million benefited from $12 million in one-off gains, primarily relating to the revaluation of Epiminder.

Record sales revenue of $1,641 million, an increase of 10% (9% in CC), was driven by strong demand for acoustic implants and sound processor upgrades with all regions and product segments tracking above pre-COVID levels.

Gross margin increased from 73% to 75%, aligned to the 75% longer-term target.

Operating expenses increased by 15% (15% in CC), reflecting growing investment in R&D and market growth activities with a material increase in cloud computing-related investment. Excluding cloud investment, operating expenses increased 13%.

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

Sustained value means having environmentally responsible business processes to support our growth ambitions.

We are taking practical action to meet our targets of reducing Scope 2 carbon emissions and moving our manufacturing to 100% renewable energy.

Our site at Lane Cove, Sydney was our first global headquarters and manufacturing facility. As part of a project to modernise and improve the environmental performance of the site, we are installing a 750-kW roof top solar system, which will generate onsite renewable electricity.

Once installed the system will nearly halve the facility's demand for grid power, reducing its Scope 2 carbon emissions by just over 50% from our FY19 baseline.

Strong financial position

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

Net cash increased $22 million to $587 million, driven by strong free cash flow generation, with operating cash flows increasing by $111 million to $377 million and free cash flow increasing $57 million to $238 million.

A final dividend of $1.45 per share has been determined, with full year dividends declared of $3.00 per share, an increase of 18% on last year and representing a payout of 71% of underlying net profit.

Investing to improve efficiency and agility

We are strengthening our business processes and IT platforms to improve efficiency and agility with an investment of $100-150 million in cloud-based technology solutions over four to five years. Successfully executing this transformation program will enable us to scale more effectively and provide even better solutions for our customers.

In April 2021, the International Financial Reporting Standards Interpretations Committee handed down an accounting interpretation on the treatment of cloud computing arrangements, which limits the ability to capitalise customisation and configuration costs related to cloud computing products. As a result, investment in cloud computing has been reclassified from capital expenditure to operating expenses, effective from FY21. This change has no impact on cash flow but reduces reported profits.

As the change in accounting treatment has coincided with the commencement of a major investment in cloud-based technology, we expect it to impact our ability to deliver our net margin target of 18% over the next few years.

For FY22, $22 million before tax ($15 million after tax) of cloud computing-related investment was recognised as an operating expense (previously would have been reported as capital expenditure). FY21 financials have been restated to reflect the change with operating expenses increasing by $4 million ($3 million after tax).

Proposed Oticon Medical acquisition

In April we agreed to acquire Oticon Medical for DKK850 million (approx. $170 million) following Demant's decision to exit its hearing implants business activities. As part of the transaction, we have committed to providing ongoing support for Oticon Medical's base of approximately 75,000 hearing implant recipients, which includes cochlear and acoustic implants.

We look forward to welcoming Oticon Medical's implant customers to the Cochlear family. Driven by our mission to innovate and deliver a lifetime of hearing outcomes, we will seek to ensure that Oticon Medical's customers continue to be supported with a lifetime of hearing solutions.

We will work closely with Demant to ensure a seamless transition, with continued access to current Oticon Medical technology for customers in the coming years. We will develop next generation sound processors and services that will enable customers to transition to and benefit from Cochlear's technology platform over time.

The acquisition of Oticon Medical will provide us with greater scale and will enable us to increase our investments in R&D and market growth activities. While Cochlear is a market leader in implantable hearing, we are a small player in the hearing loss segment where hearing aids remain the primary treatment option.

Oticon Medical is expected to add $75-80 million to annual revenue. The business is currently loss making. Our priority post-closing of the transaction will be to determine and implement a plan that returns the business to profitability as quickly as possible. Integration costs, which include the development of compatible next generation sound processors, are yet to be determined and could range from $30-60 million.

Completion of the transaction is conditional upon satisfaction of customary closing conditions and receipt of competition approvals in jurisdictions where the transaction meets relevant notification thresholds. Cochlear will not be assuming any liability for issues that may arise from the voluntary field corrective action for Oticon Medical's Neuro Zti cochlear implant announced in October 2021.

FY23 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 FY23, we expect to deliver underlying net profit of $290-305 million, a 5-10% increase on FY22 underlying net profit, an increase of 8-13% when adjusted for the increase in cloud computing-related expenses. We expect to deliver strong growth in sales revenue and around 18% underlying net profit margin before cloud computing-related expenses.

FY23 net profit is expected to be weighted to the second half. We expect trading conditions to progressively improve across the year, with intermittent COVID-related hospital or region-specific elective surgery restrictions likely to continue. The release of the Cochlear™ Nucleus® 8 Sound Processor is expected to contribute from the second quarter as commercial availability commences in European countries. The new sound processor is expected to be launched across other markets by the end of December, subject to the timing of regulatory approvals. Launch costs are expected to be primarily incurred during the first half, with sales revenue weighted to the second half.

We will continue our investment in R&D and market growth activities to support long-term market growth.

Cloud computing-related investment is expected to lift in FY23 to around $36 million ($25 million after tax), a $14 million increase ($10 million after tax) on FY22.

Guidance is based on a 70 cent AUD/USD and 68 cent AUD/EUR.

Capital expenditure is expected to be around $80 million.

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

Guidance does not factor in earnings from the proposed acquisition of Oticon Medical, which is expected to complete by end CY22.

A more material disruption from COVID or hospital capacity restrictions that significantly impacts sales remains a risk factor that does not form part of guidance.

Alison Deans
Chair

Dig Howitt
CEO & President

Our strategy

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

We have a responsibility to be here to support a lifetime of hearing for the children, and adults, being implanted with our devices, which means we need to deliver sustainable financial growth, benefiting all our stakeholders. We achieve this through market-leading innovation capabilities in conjunction with a global network of experts and collaborators; the strong and trusted relationships we build with our candidates, recipients, professional customers and payers; and our employees who are central to how we deliver our strategy and create value.

The following pages outline our strategy to create long-term value. We have a long track record of delivering growing sales revenue, profits and dividends which stems from maintaining focus on our core strength, implantable hearing solutions, a multi-decade philosophy of investing to grow, combined with disciplined management of capital. This focus continues to drive us into the future.

Our mission

The passion that drives the organisation and focuses the strategy

- Empower
- Transform
- Innovate

Our strategy

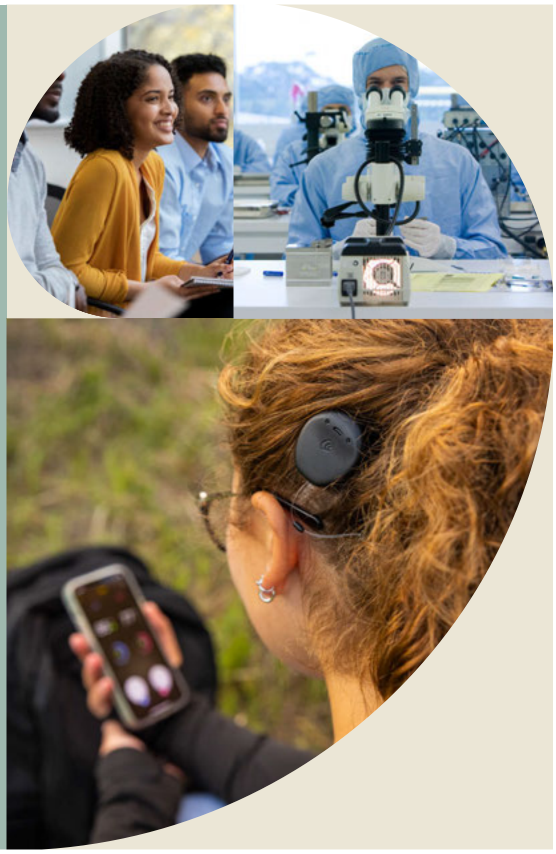
Where we focus our time and resources to create value

- Growth opportunity
- Strategic priorities
- A stronger organisation

Value creation

How the outcomes of our activities impact all key stakeholders - our customers, our people, our shareholders and society more broadly

- A healthier & more productive society
- Empowered customers
- A lifetime of hearing solutions
- Thriving people
- Sustained value



How we create value

Growth opportunity

Our growth opportunity is compelling and has remained unchanged for many years. Hearing loss is a prevalent and under-treated condition and implantable hearing solutions provide life-changing outcomes for recipients. Importantly, they provide a cost-effective solution for all age groups, delivering significant returns on the investment made by the healthcare system. The factors driving industry growth include:

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

Strategic priorities

Our strategic priorities outline how we focus our time and resources to create value.

Retain market leadership

We are committed to retaining our market leadership position in the industry by continuing to make substantial investments in R&D that enable us to bring to market implantable hearing solutions that deliver a lifetime of hearing outcomes.

Grow the hearing implant market

We grow the hearing implant market by transforming the way people understand and treat hearing loss. Our efforts are targeted at improving awareness, expanding access and building on the clinical evidence that demonstrates the effectiveness of our products.

Deliver consistent revenue & earnings growth

To deliver consistent revenue and earnings growth over time, we balance maximising spending to grow the market with investment to maintain our competitive position.

A stronger organisation

To be successful over the long term, our organisation needs to be strong, agile and sustainable to enable us to execute our strategy, support our customers and deliver on our growth ambitions. Our key priorities in strengthening our organisation are centred around shaping our culture, creating value sustainably and being agile and efficient.

Shaping our culture

Our people are our most valuable asset and are an engaged, capable, high-performing and diverse team. The way our people work together is a critical determinant of our success.

Creating value sustainably

We have a responsibility to be here to support a lifetime of hearing for the children, and adults, being implanted with our devices, which means we need to deliver sustainable financial growth. Sustainable business practices contribute to the creation of long-term value for all our stakeholders.

Being agile and efficient

We are investing in strengthening our business processes and IT platforms to improve efficiency and agility. Successfully executing this transformation program will enable us to scale more effectively and provide even better solutions for our customers.

Value creation

Value creation describes the impact we have on all our key stakeholders – our customers, our people, our shareholders as well as society more broadly. For us, success will be defined by building a healthier and more productive society, having empowered customers, providing a lifetime of hearing solutions for our recipients and having thriving employees. Doing these things well should enable us to achieve sustainable financial returns over time.

The value we create

A healthier & more productive society

Empowered customers

Strategic focus

Over the coming years, we are focusing our efforts on delivering value across the following initiatives and/or achieving important targets.

Grow the hearing implant market

- Improve the awareness of cochlear and acoustic implants
- Broaden reimbursement and improve the indications for cochlear and acoustic implants
- Support the development of consistent practice guidelines to strengthen the referral pathway for adults
- Build on the clinical evidence that supports the superior outcomes of cochlear implants over hearing aids for people with severe or higher hearing loss
- Collaborate with research institutions studying the links between hearing loss and healthy ageing

World-class customer experience

- Grow connectivity and engagement with recipients
- Introduce connected care solutions and skills training tools for recipients
- Introduce sound processor upgrades that provide functional and aesthetic benefits
- Develop technology solutions that provide greater convenience and confidence to professional customers

How stakeholders benefit

Success means achieving the following outcomes for our stakeholders:

Payers and society more broadly

- Appropriate funding for a cost-effective intervention
- Standard treatment pathway for implantable hearing devices for all age groups
- Education and productivity opportunities for children and adults
- Understanding of the link between good hearing and healthy ageing and the need to take action

Our customers

Services that deliver:

- Convenience and confidence
- Improving quality of life
- Improving hearing outcomes
- Positive customer experience
- Reduced cost to serve for professional customers

A lifetime of hearing solutions

Market-leading technology

- Maintain market leadership through growing levels of investment in R&D (targeted at 12% of sales revenue)
- Innovation focus on hearing implants, sound processing technology, connectivity and clinical and surgical support
- Introduce new products that provide improved hearing outcomes, functionality, connectivity and aesthetic benefits

Thriving people

A stronger organisation

- Learning and development to facilitate innovation
- Talent attraction and retention
- Strengthen and nurture the organisational culture
- Competitive, inclusive compensation and benefits to attract, motivate and retain talent
- Succession planning
- Embracing diversity in all forms

Sustained value

Consistent & sustainable growth

- Optimise growth investment
- Target an 18% net profit margin over the long term
- Target net-zero carbon emissions in our operations by 2030 and across our value chain by 2050
- Grow our contribution to the United Nations Sustainable Development Goals
- Maintain a strong balance sheet
- Improve efficiency and agility
- Maintain high levels of corporate governance

Our customers

Products that deliver:

- High quality and reliability
- Improving hearing outcomes for both new and existing customers from next generation implants and sound processors
- Improving quality of life
- Expanded product indications

Our people

- Engaged, capable and high-performing employees
- Diverse, equitable and inclusive workplace
- Strong health, wellbeing and safety culture

Our shareholders

Creating value sustainably

- Consistent financial performance
- Disciplined capital management
- Strong corporate governance
- Ethical and sustainable supply chain

Advancing environmental responsibility

- Reduced carbon emissions
- Smaller environmental impact

Growth opportunity

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

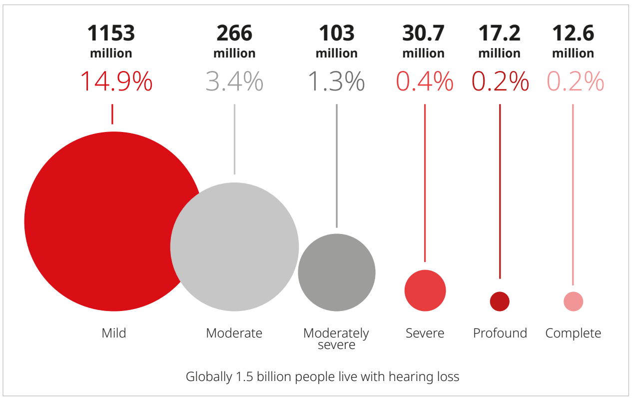
Opportunity	Description

Hearing loss is prevalent and under-treated

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

A challenge for hearing care providers is that less than 5% of the people that could benefit from an implantable hearing solution have received one.[2]

>60m people with severe or higher hearing loss



Source: World Health Organization; 2021

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

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

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

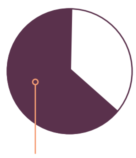
The estimated lifetime societal costs for a pre-lingual deaf child in developed markets exceeds US$1.5 million.[3-5]

The effective use of implants is cost-effective in adults and seniors with an estimated return on investment of 10:1.[6]

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

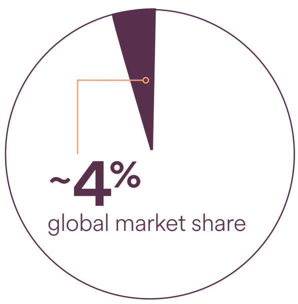
Cochlear implants can provide a significant improvement in hearing outcomes and quality of life when compared to hearing aids for many people with a severe or higher hearing loss.

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



>60% global market share

Cochlear implant market share



Hearing devices treating the severe or higher hearing loss segment

How we are responding

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

For cochlear implants, three key market segments have been prioritised comprising adults and seniors in developed markets, children in developed markets and children in emerging markets, with strategies to improve awareness and access that vary by segment. For acoustic implants, we have developed the Cochlear™ Osia® 2 System, a product that we believe provides the opportunity to drive deeper category penetration by providing a significant improvement in performance and aesthetics for bone conduction patients.

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

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

For a pre-lingual deaf child, the return to society is more than 13 times every dollar spent on a cochlear implant solution based on the cost savings in education and improved productivity as an adult.[3-5]

The effective use of implants is cost-effective and has been proven in adults and seniors with an estimated return on investment of 10:1.[6] Dementia and other cognitive decline diseases are some of the costliest conditions to treat in the world[7], at an estimated US$1 trillion in 2018 and estimated to double by 2030.[8] Unfortunately, individuals with severe hearing loss are almost five times more likely to develop dementia than people without hearing loss.

A challenge for professionals and consumers is understanding the potential improvement in hearing outcomes that can be attained from a cochlear implant. There is a growing body of evidence of the superior outcomes of cochlear implants over hearing aids for many people with a severe or higher hearing loss (>70dB).[9]

In 2018, a Cochlear study of recipient experiences[10] found that the number of participants reporting satisfaction with their hearing performance increased significantly after receiving a cochlear implant, rising from 9% when using hearing aids only to 95% after receiving a cochlear implant.

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

Growth opportunity

Opportunity	Description

Product indications are broadening and funding is expanding

Product indications and funding are expanding as payers increasingly recognise the improved outcomes and cost-effectiveness of our implantable solutions.

US: lowered the age of cochlear implantation from 12 to 9 months and included single-sided deafness as an indication for Cochlear's Nucleus implant

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

Cochlear™ Osia® 2 System: reimbursement achieved across a number of countries including the US, Germany and UK

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

Australia: reimbursement for remote programming of cochlear and bone conduction implants

France: reimbursement approved for Baha sound processors

Good hearing is essential for healthy ageing

Hearing loss is particularly prevalent in people over the age of 60, with one in four suffering moderate or higher hearing loss.[11]

There is a growing understanding of the importance of properly treating hearing loss in this age group. It affects communication and is associated with social isolation, anxiety, depression and cognitive decline.[12]

Growing understanding of the link between good hearing and healthy ageing

Cognitive decline
Hearing loss associated with accelerated cognitive decline and dementia in older adults.[14]

Depression
Significant association between hearing impairment and moderate to severe depression.[15-17]

Falls
Higher risk of dizziness causing falling.[16]

Social isolation
Hearing loss linked to withdrawal from social interactions, which can have a significant impact on psychological well-being and physical health.[18-19]

Ability to work
Hearing loss can affect sufferers' ability to work or stay in the workforce.[20-22]

Loss of independence
Seniors with hearing loss less likely to be able to self-care.[17]

How we are responding

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

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

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

Cochlear implantation for seniors is an important trend, with hearing loss ranked as the leading cause of global years lived with disability for people over the age of 70.[13] We have been increasing our public advocacy engagement, our investment in health economics, our market access capability and the collaborations we have with the medical research community to build on the clinical evidence that demonstrates the effectiveness of our products, particularly for seniors.

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

Strategic priorities:
Retain market leadership

We create value through innovation, bringing to market new products and services that improve hearing outcomes and provide a lifetime of hearing solutions for recipients.

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

We have a global innovation network with over 500 R&D employees across the globe. Primary R&D is co-located with the Australian Hearing Hub in Sydney, with the 'Cochlear Technology Centre' in Mechelen, Belgium focused on advanced innovation. We have over 100 research partners in over 20 countries and a global network of design consultants and suppliers.

Our market-leading product & services portfolio

Cochlear implants

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

Cochlear™ Nucleus® Profile™ Plus implant

Slim Modiolar electrode

Acoustic implants

Benchmark in performance and aesthetics

Cochlear™ Osia® 2 System

Sound processors

Benchmark in size, smartphone connectivity and hearing performance

Cochlear™ Nucleus® 7 Sound Processor

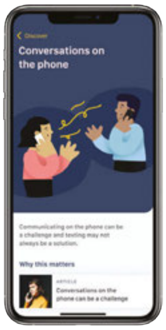
Cochlear™ Nucleus® Kanso® 2 Sound Processor

Cochlear™ Baha® 6 Max Sound Processor

Convenience & confidence

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

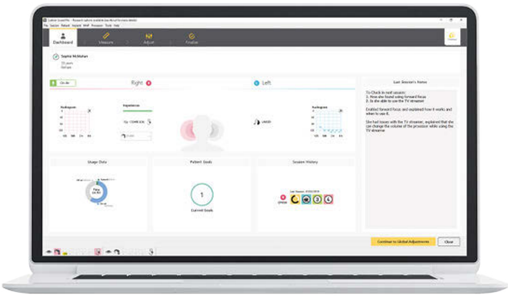
Nucleus, Baha & Osia Smart Apps



Cochlear™ CoPilot

Clinical & surgical support

Streamlining customer care for surgeons and clinicians

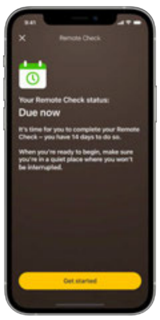


Custom Sound® Pro Fitting Software

Nucleus® SmartNav System

Telehealth solutions

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



Remote Check solution for cochlear implants

Cochlear™ Remote Assist

Responsive & convenient service

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

Cochlear™ Link

Not all products are available in all countries.

Strategic priorities:

Grow the hearing implant market

We grow the market by transforming the way people understand and treat hearing loss. Our efforts are targeted at improving awareness, expanding access and building on the clinical evidence that demonstrates the effectiveness of our products. Our biggest opportunities to create value will be from building a sustainable adult referral pipeline for cochlear implants and by broadening the acoustics market.

Segment	Description
Cochlear implants: Children in developed markets	Cochlear implantation has been established as the standard of care for newborns across many developed markets, with bilateral implants indicated across most markets as evidence supports the benefit of binaural hearing.

Addressable market*
~130,000 people

Current penetration*
>80% under 3-year-old children

Segment	Description
Cochlear implants: Adults and seniors in developed markets	Adults and seniors in the developed markets provide the biggest opportunity for us to address the unmet need for hearing implants given the large, and growing, market size as the population ages and the low levels of penetration.

Addressable market*
>6m people

Current penetration*
~3%

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

What are we doing

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

The key priority for this segment is to maintain our leadership position while aiming to improve the rate of implantation, and/or the uptake of bilateral implants, in markets where current levels are below average.

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

According to the WHO, hearing loss is particularly prevalent in people over the age of 60, with 65% experiencing hearing loss and one in four people suffering moderate or higher hearing loss. It affects communication and is associated with social isolation, anxiety, depression and cognitive decline.[1] The segment is however challenging to penetrate as most candidates suffer from a progressive hearing loss and, together with their care providers, either do not know about cochlear and acoustic implants or do not understand the indications for them.

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

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

Strategic priorities:
Grow the hearing implant market

Segment	Description
Cochlear implants: Children in emerging markets	Cochlear's emerging markets business has been growing rapidly as awareness of cochlear implants increases and wealth grows across many emerging economies.

Addressable market*
>1.3m people

Current penetration*
<10%

Segment	Description
Acoustic implants: Next generation bone conduction hearing solutions	The bone conduction market is under-penetrated and currently has limited geographic reach. We have developed a product that we believe provides the opportunity to drive deeper category penetration.

Addressable market*
>3m people in developed markets

Current penetration*
<1%

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

What are we doing

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

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

We have recently introduced the next generation of bone conduction hearing solutions into our Acoustics portfolio with the Cochlear™ Osia® 2 System, providing a significant improvement in performance and aesthetics for bone conduction patients.

Pre-market trials have demonstrated significant improvements in outcomes for patients[2] over traditional bone conduction hearing solutions, and we are already experiencing high demand for the new implant in the US, where it was first launched.

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

Strategic priorities:
Grow the hearing implant market

Developing a treatment pathway for adults

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

Adults and seniors in the developed markets provide the biggest opportunity for us given the large, and growing, market size as the population ages and the low levels of penetration. One of our challenges is that awareness of cochlear implantation among primary and hearing health care clinicians is inadequate, leading to poor identification of eligible candidates. Clearer referral and cochlear implantation candidacy pathways would help increase access to cochlear implants.[3]

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

- **Developing consistent referral guidelines** to enable early identification and referral;
- **Building clinical and economic evidence** that compels early adult referral and coverage; and
- **Driving awareness and advocacy** through hearing professionals.

Developing consistent referral guidelines

The development of a standard treatment pathway for care by which all healthcare professionals diagnose, refer and treat adults eligible for cochlear implants has many aspects and requires a co-ordinated effort between industry, hearing health professionals and public policy makers. There have been some important developments over the past few years.

In 2020 a global consensus on a minimum standard of care for treating adult hearing loss with a cochlear implant was published in the leading Journal of the American Medical Association, *JAMA Otolaryngology*. This International Consensus Paper is an important step forward, providing the foundation for the development of formal clinical practice guidelines.

In 2021, the World Health Organization (WHO) provided guidance for establishing evidence-based programs for hearing screening via the World Report on Hearing[4], aimed at improving the identification and treatment of hearing loss in target age-groups, including adults.

And in 2022, the 'Living Guidelines' initiative was established, an international taskforce of over 50 leading cochlear implant professionals, academics and cochlear implant users tasked with delivering clinical guidelines to enable early identification and referral for cochlear implant candidates. The initiative aims to create guidelines that can be adapted and adopted in country to optimise the care for adults eligible for cochlear implants.

“It’s like I’m reliving my life”

Lou Ferrigno, on hearing with a cochlear implant

Stories from hearing implant recipients also help to raise awareness of the benefits of implantable hearing solutions, and give candidates the confidence to consider whether their current hearing aid is bringing them any benefit. Since May 2021, we’ve been working with Lou Ferrigno, 69, actor, fitness expert and retired bodybuilder, to share his story about receiving a cochlear implant and addressing his hearing loss.

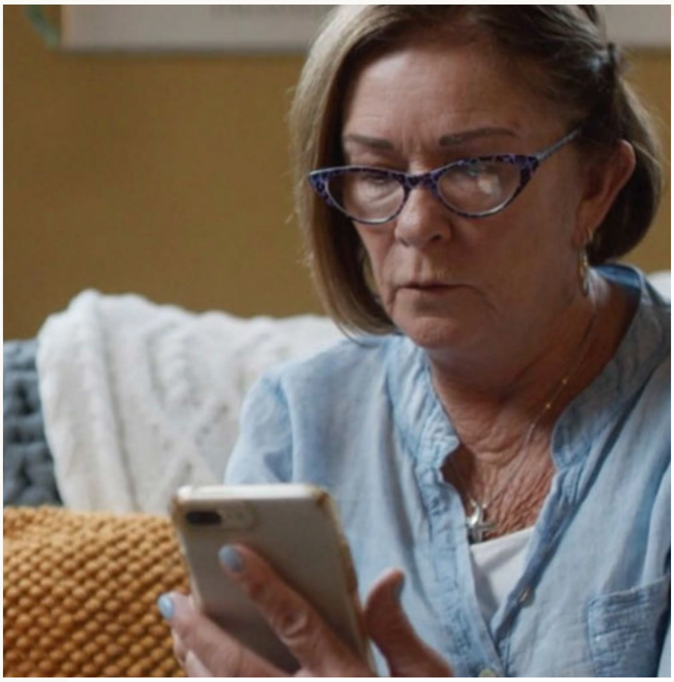
Most known for his role in the TV series “The Incredible Hulk” and for being the youngest – and only – two-time consecutive and Guinness World Record™ holder for the IFBB (International Federation of Bodybuilders) Mr. Universe title, Lou has been impacted by profound hearing loss for almost his whole life.

Hearing loss started for him when he was a toddler due to ear infections, and he began wearing hearing aids at 4 years of age. Over the years, Lou tried a number of different types of hearing aids, none of which helped him achieve the hearing he needed.

In February 2021, Ferrigno underwent surgery for his cochlear implant, the Cochlear™ Nucleus® Profile™ Plus Implant, and now hears successfully with his Cochlear Kanso® 2 Sound Processor.

Taking the step to treat his profound sensorineural hearing loss with a cochlear implant is aiding Lou’s desire to remain fit and healthy as he ages. “I worked very hard to speak and hear with hearing aids for so long, but I finally learned that with my profound hearing loss, the best hearing aid in the world was not going to give me the clarity in speech I needed,” said Lou. “My cochlear implant has so quickly taken me to a new level of hearing. It’s like I’m reliving my life.”

Cochlear’s US team have been working with Lou Ferrigno to share his story across media tours, professional conferences, candidate and recipient events and social media.

Building clinical and economic evidence

The evidence supports the establishment of an effective clinical pathway for adults. There is growing recognition that hearing is an essential part of healthy ageing and treating age-related hearing loss is cost-effective.

An important first of its kind randomised controlled trial has just commenced in the UK. The Comparing Cochlear implants with Hearing aids in adults with severe hearing loss (COACH) study is the first randomised controlled trial to compare communication and quality of life outcomes with hearing aids to unilateral cochlear implants for adults with severe sensorineural hearing loss.

The trial will provide the highest standard of clinical evidence and is aimed at resolving uncertainty associated with the treatment of severe or higher sensorineural hearing loss.

The study is being is sponsored by the University of Nottingham and co-ordinated by Nottingham Clinical Trials Unit and Cochlear has provided a grant to conduct the study.

The COACH study will assess whether a cochlear implant or hearing aids are better at improving speech understanding for adults with severe hearing loss. Half of the trial participants will be randomly assigned with new hearing aids, with the other half receiving a cochlear implant.

A second randomised control trial known as The Aging and Cognitive Health Evaluation in Elders (ACHIEVE) study is being undertaken by our partners at Johns Hopkins University and their Cochlear Implant Center. In observational studies, hearing loss has been independently associated with accelerated cognitive decline and incident dementia. To date, there has not been a randomised trial to determine whether hearing loss treatment could reduce cognitive decline and dementia in older adults. ACHIEVE is taking place at four centres in the US and will be the first randomised controlled trial to test the efficacy of hearing treatment in reducing cognitive decline in older adults.

There is growing evidence of the individual and societal economic value of treating age-related hearing loss, with cochlear implants considered to be a highly cost-effective medical intervention. In 2022, *The Lancet* published the first-ever global investment case for integrating ear and hearing care interventions in countries' universal health coverage services[5]. Based on the WHO's proposed interventions, which include cochlear implants for people with severe or higher hearing loss, the study concluded that the investment required to execute these interventions would result in substantial health gains, with an overall return of nearly US$15 for every US$1 invested.

Driving awareness and advocacy

An important part of developing a treatment pathway for adults involves working with hearing health professionals and patient advocacy groups to amplify the work being done on the referral guidelines and evidence building to create broad-based awareness.

We engage with a broad range of advocacy groups globally. The Cochlear Implant International Community of Action (CIICA) was formed in 2021 and is the first global cochlear implant user and family advocacy network. It currently has 80 member organisations across more than 50 countries. CIICA aims to increase the number of people globally who have access to cochlear implants and lifelong support. It does this by raising the awareness of the health, social and economic benefits of cochlear implants for those who could benefit from implantation, to health care practitioners and the wider society.

Along with many other groups, CIICA plays an important role in building awareness of cochlear implants and lobbying for changes to funding. The Nordic Adult CI Action Group Declaration is a good example of advocacy in action. The declaration bought together hard of hearing and cochlear implant user associations from five Nordic countries to co-ordinate efforts in improving access to cochlear implants for adults.

We also have research partnerships with academic institutions including Johns Hopkins University and Macquarie University, engaging on issues of public health, cost-effectiveness and broad awareness.

What standard of care looks like for adults

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

Strategic priorities:
Deliver consistent revenue and earnings growth

We create value by maintaining discipline around our long-term investment model and continuing to refine our capital allocation processes to ensure we optimise investment. We balance maximising spending to grow the market with investment to maintain our competitive position while ensuring we have agile, efficient and environmentally responsible business processes to support our growth ambitions.

Investment priority	Consistent investment in sales and marketing

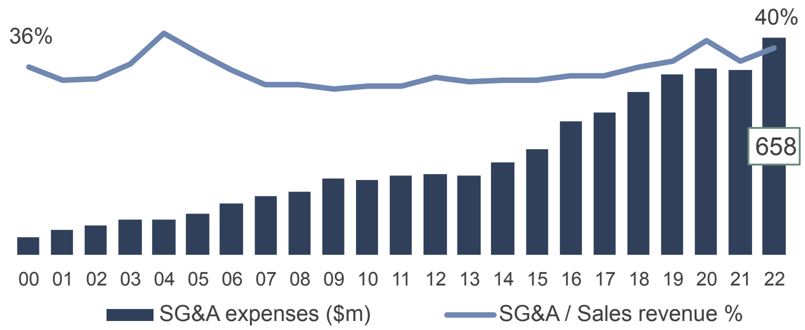
Invest to grow

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

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

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

Selling, general & administration expenses



Revenue drivers

Cochlear implants

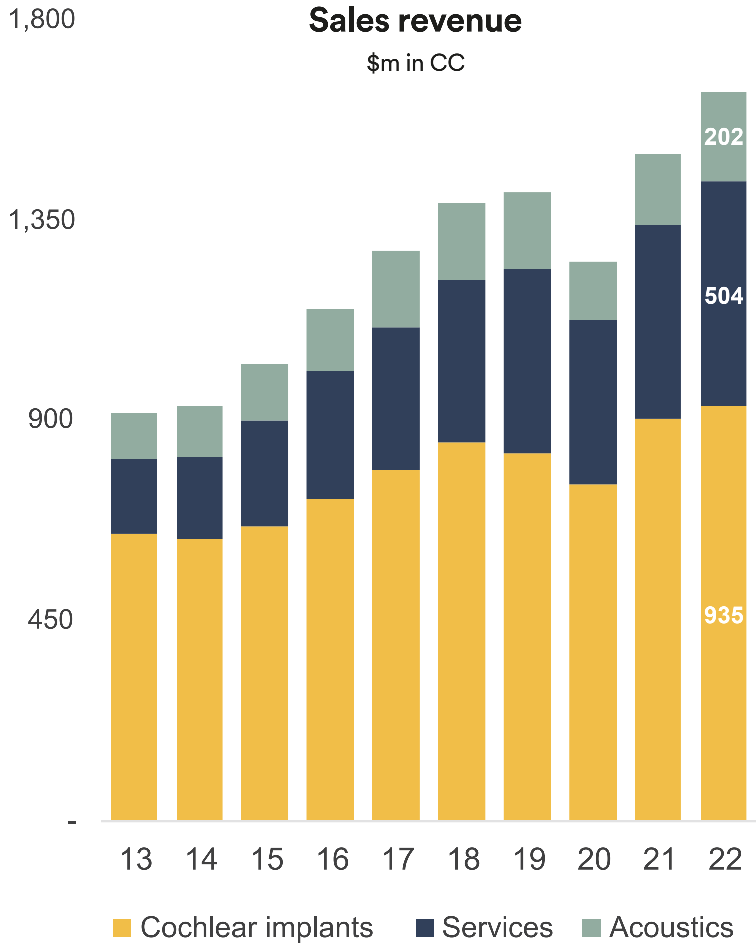
- Growing awareness and uptake by adults and seniors
- Emerging market expansion
- New products driving market growth and market share

Services

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

Acoustics

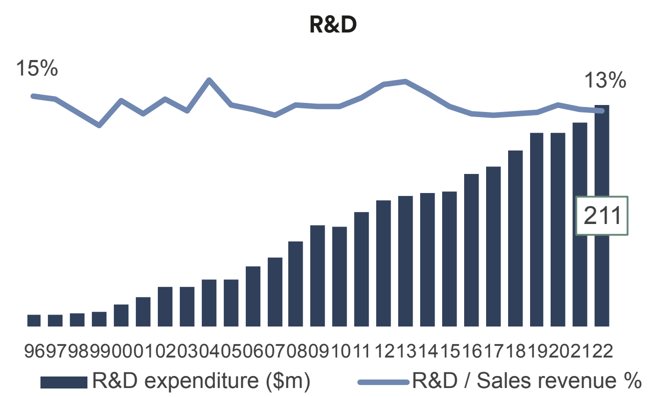
- New products
- Market expansion led by Cochlear™ Osia® 2 System



Growing R&D capability

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

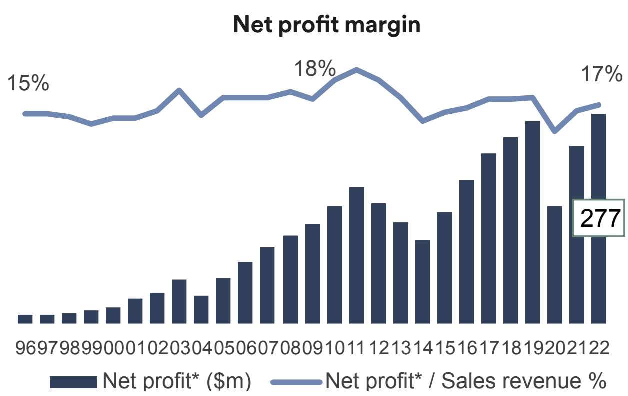
We have a wide range of fully featured products and a broad patent portfolio that protects our intellectual property. Over $2 billion has been invested in R&D since listing and we target an annual R&D investment of 12% of sales revenue.



Delivering stable net profit margins

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

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



* Excluding one-off and non-recurring items.

Strategic priorities:
Deliver consistent revenue and earnings growth

Investment priority — **Disciplined use of capital**

Operational improvement

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

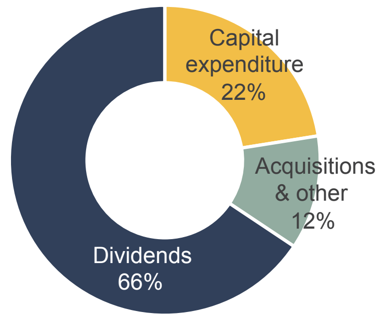
Operating cash flows have been primarily used to fund dividends, capital expenditure and acquisitions.

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

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

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

Cumulative use of operating cash flows since listing



The innovation fund has invested around $140 million in companies with novel technologies that may, over the longer term, enhance or leverage our core technology. The innovation fund includes investments in Nyxoah, Precisis, Epiminder, Seer Medical and Sensorion.

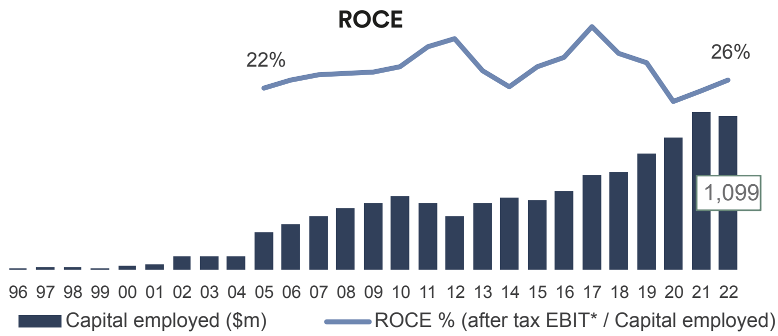
Investment priority — **High return on capital employed (ROCE)**

Strong financial position

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

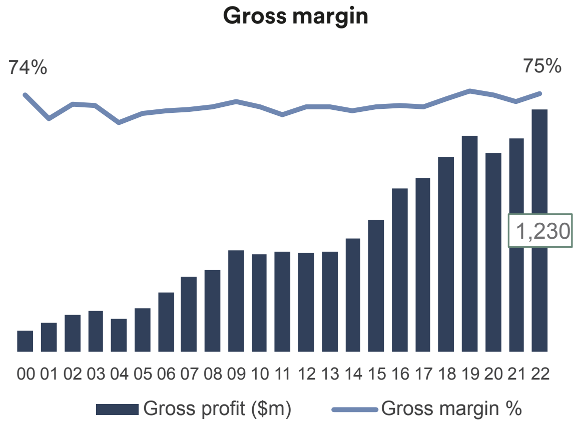
ROCE measures the cash return for each dollar invested in the business. We generate a high ROCE reflecting our competitive position in the market and the high barriers to entry to the cochlear implant industry which have proven to be robust over many decades.

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



Stable gross margin

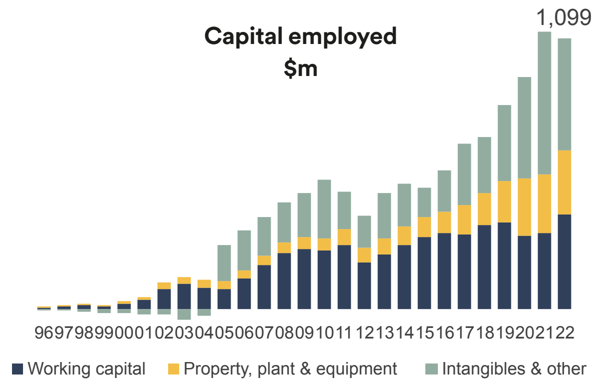
The gross margin has been relatively stable since listing. We use our scale to generate efficiency gains to reinvest back into market growth activities.



Capital employed

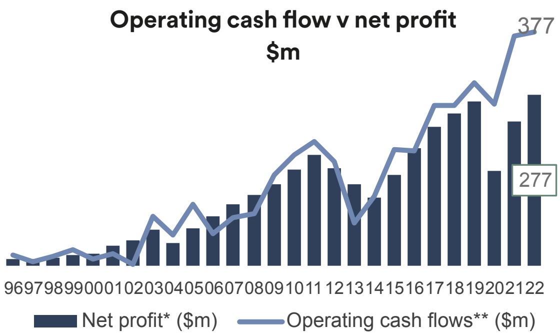
Capital employed is comprised of three broad categories: Working capital (24%), which is primarily inventories; Property, plant & equipment (21%) and Intangibles & other (55%).

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



Quality operating cash flows

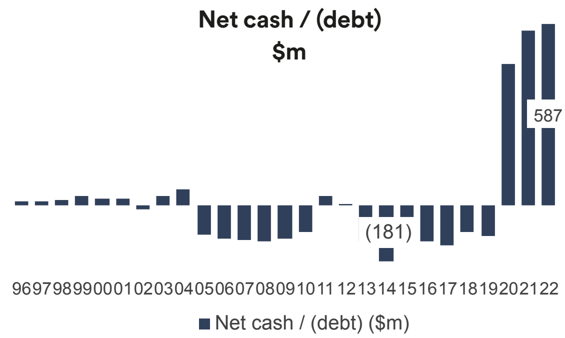
One of the highlights of our financial history has been the conversion of reported profits to cash. There has been a strong and consistent correlation between reported net profit and the operating cash flows generated by the business.*



Conservative gearing levels

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

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



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

A stronger organisation

To be successful over the long term, our organisation needs to be strong, agile and sustainable to enable us to execute our strategy, support our customers and deliver on our growth ambitions.

Shaping our culture

Our people are our most valuable asset and are an engaged, capable, high-performing and diverse team. The way our people work together is a critical determinant of our success.

Cochlear has a rich history, helping people to hear for over 40 years, underpinned by a strong culture of innovation and customer focus. To continue to serve our customers and fulfil our mission, we have a responsibility to build a reputable and sustainable organisation, now and into the future. We achieve this by nurturing those important elements of our culture that have brought us success, while continuing to evolve, intentionally shaping the culture that will enable us to grow and deliver for our customers as our workforce expands.

Over the past few years, our focus has been on building a stronger achievement culture, improving the way we collaborate to achieve company-wide goals. Focused training and development enable us to establish clearer priorities and work more-effectively together, removing boundaries and improving focus on what matters most, our customers.

We have continued to develop our systems, processes and organisation design in a deliberate fashion to reinforce this target culture. We have invested in leadership development, notably in Inclusive Leadership and Unconscious Bias and Culture Conversations, with an increased focus on building critical skills and capabilities both at an individual and organisational level. Our top 100 senior leaders and our 100 culture champions – a diverse group of employees from various regions, functions, backgrounds and experience – are engaged in driving and role modelling our culture. This collaborative approach layers a top-down, bottom-up and peer-to-peer approach to reach and inspire all employees to work towards our culture objectives.

Overall employee engagement remains strong at 80%, with 91% of employees reporting that they feel proud to tell people they work at Cochlear and 94% understanding how they contribute to the satisfaction of our customers.

H	E	A	R
HEAR THE CUSTOMER	EMBRACE CHANGE & INNOVATE	ASPIRE TO WIN	REMOVE BOUNDARIES

Our HEAR behaviours bring our mission to life and reflect what we value as an organisation.

Creating value sustainably

We have a responsibility to be here to support a lifetime of hearing for the children, and adults, being implanted with our devices, which means we need to deliver sustainable financial growth. Sustainable business practices contribute to the creation of long-term value for all our stakeholders.

This year we made significant progress in integrating sustainability into our corporate strategy aligned with our value creation model. Our sustainability approach underpins our commitment to create sustainable long-term value by contributing to a healthier and more productive society, empowering customers, providing a lifetime of hearing solutions, thriving people, creating value responsibly and advancing environmental sustainability.

We have continued to invest in awareness and access focused on our goal to deliver value by helping more people to hear. In 2022 the 'Living Guidelines' initiative was established, an international taskforce aimed to deliver clinical guidelines and enable early identification and referral for cochlear implant candidates. In September, Cochlear Foundation and Malala Fund announced a partnership[2] with the aim of removing the barriers that keep millions of children and young people with hearing loss from accessing a quality education and encouraging governments and societies to prioritise hearing health in children.

Courtesy of Malin Fezehai / Malala Fund

We strongly support the objectives of the United Nations Sustainable Development Goals, a global call to action on the most urgent sustainable development challenges. We also joined the United Nations Global Compact, committing to the ten universal principles relating to human rights, labour, environment and anti-corruption across our business.

We advanced in gender balance and achieved our target to have at least 40% female representation amongst our senior leaders by June 2023 ahead of time, with 41% today. At the Board level, we are targeting at least 30% female representation, a target we first achieved in FY21, with 33% female directors at the end of June.

We formalised our commitment to recognition and reconciliation through a Reconciliation Action Plan. We advanced our reconciliation strategy, recognising the impact of dispossession on generations of First Nations peoples, celebrating the important role of First Nations peoples in Australia's past, present and future and our commitment to engaging and working more closely with First Nations communities.

We developed our carbon reduction strategy, aligned with Science Based Target Initiative and consistent with efforts to limit warming to 1.5 degrees above pre-industrial levels. We are targeting net-zero emissions in our operations (Scope 1 and 2) by FY30 and across our value chain (Scope 1, 2 and 3) by FY50.

For more information, you can read our Sustainability Report at www.cochlear.com.

A stronger organisation

Being agile and efficient

We are investing in strengthening our business processes and IT platforms to improve efficiency and agility. Successfully executing this transformation program will enable us to scale more effectively and provide even better solutions for our customers.

Our recipient base is fast approaching one million. As we look to the future, we recognise the need for more scalable ways to provide customer service and customer solutions. And with an increasing suite of digital products and services, we must ensure our processes, data and platforms are consistently deployed across the globe. At the same time, we seek to ensure we continue to meet the challenge of increasingly stringent regulatory and security standards that require strong process governance and transparency.

Improving strategy execution and meeting customer needs for digital solutions require greater organisational integration and more consistent business processes. To achieve this, we will invest $100-150 million in cloud-based technology solutions over four to five years.

We have been preparing for this transformation over the past few years, simplifying our organisational structure, clarifying decision rights and working to standardise processes across the business. We have established strong governance structures for processes and platforms and will build sustainable continuous improvement processes to capture efficiencies in the years to come.

We have commenced this program, and expect to progressively introduce scalable, flexible platforms and build the capability to support these platforms.

Business process transformation provides broad benefits

Employee outcomes

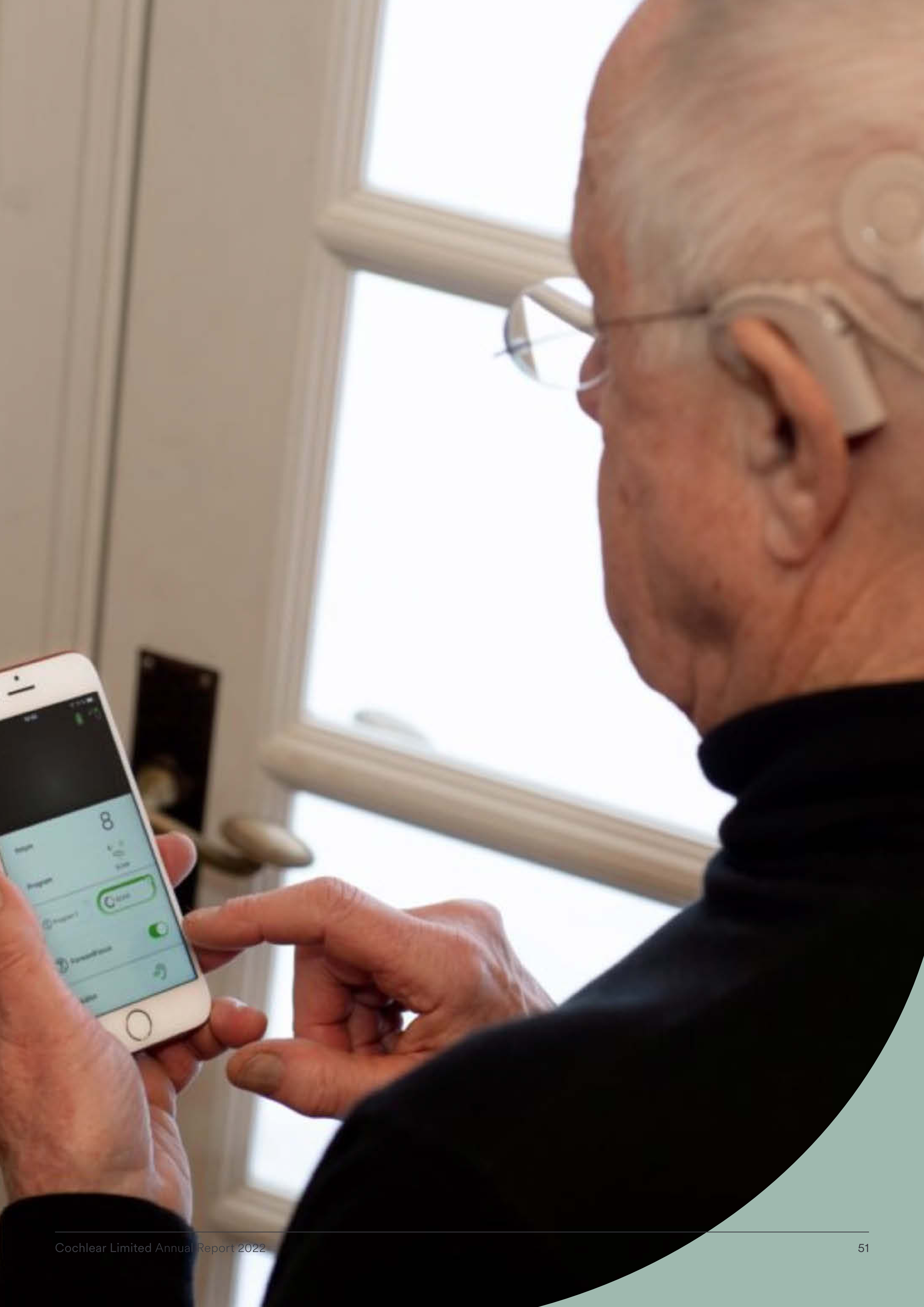
- Better, more accessible information
- Easier to do higher value work
- Easier to train people

Business outcomes

- Lower costs through scalable and efficient business processes and platforms
- Agility and the ability to change quickly
- Better data and use of data to enable growth and support decision making
- Continuous improvement in key processes to drive ongoing scale benefits

Customer outcomes

- Seamless digital experience for recipients and increased self help
- Integrated solutions for professionals making it easier and lower cost to work with Cochlear
- Lower cost of care for payers



Business risks

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

Our principal business risks are outlined below. These are risks that may have a material adverse effect on the business strategy, financial position or future performance. It is not possible to identify every risk that could affect the business and the actions taken to mitigate these risks cannot provide absolute assurance that a risk will not materialise. Cochlear's Risk Management Policy and details of its risk management standard can be found in the Corporate Governance Statement, both available on the website.

Risk	Description and potential consequences	Strategies used to mitigate the risk
Pandemics	As COVID has demonstrated, pandemics have the potential to impact our markets as elective surgeries may be deferred to reduce the strain on healthcare systems. Travel restrictions, government mandated shutdowns and potential supply chain impacts could also have business impacts.	In addition to developed business continuity and crisis management plans, our geographic spread of customers may mitigate the impact of a pandemic on our business.
Product innovation and competition	Increased competition exposes us to the risk of losing market share and lower average selling prices. This risk may be exacerbated by failure to produce innovative products and services. We are also exposed to the risk that our products are superseded by medical, biological and/or technological advancements resulting in alternative products or treatments being commercialised, which may impact new business.	Our active and continuous assessment of markets (new and existing) informs our strategy, operating plans and innovation programs. The creation and protection of intellectual property are a key focus for us. We target an annual investment of 12% of sales revenue on R&D aimed at retaining our market leadership position and growing the hearing implant market.
Misappropriation of Cochlear's know-how and intellectual property infringement	We are exposed to the risk that our proprietary know-how may be misappropriated through hacking of our systems, or by employees, consultants or third parties who may have access to systems. Our market share is at risk of competitors accessing and using this information. We are also exposed to allegations of infringement by third parties, including competitors, which could result in us paying damages and/or receiving injunctions preventing us from selling our products and/or paying royalties to continue selling.	Confidentiality agreements are in place with staff and third parties with access to our know-how. We limit access to key systems by business need and monitor access by individuals. We have an increasing and evolving patent portfolio across our technologies to assert against competitors, and internal and external legal resources to manage litigation, and our internal product development processes include 'freedom to operate' checks.
Medical device regulations	We operate in a highly regulated industry. Medical devices and the information they produce are strictly regulated in countries where our products are sold. Failure to meet regulations may result in product sanction or recall resulting in loss of sales and reputational harm.	Regulatory uncertainty is assessed as part of product development. We actively monitor the regulatory environment with regulators and incorporate requirements and changes into our product quality assurance system.
Product quality	Delivery of high quality and safe outcomes for our customers is central to our ongoing development of innovative product. As the developer, manufacturer, marketer and distributor, any failure in product quality might lead to injury, litigation, liability, recall and reputational harm.	Our focus on quality throughout the design, testing, manufacture and post-market monitoring of our products ensures high standards of product safety and efficacy. Effective collaboration with customers aligns clinical processes and technology with evidence-based practices. We also maintain product liability insurance.

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

Operational review

Business segment performance

$m	2022	2021	Change % (reported)	Change % (CC)*	Sales mix
Cochlear implants (units)	38,182	36,456	⬆ 5%		
Sales revenue					
Cochlear implants	935.2	898.6	⬆ 4%	⬆ 3%	57%
Services (sound processor upgrades and other)	503.9	438.5	⬆ 15%	⬆ 15%	31%
Acoustics	202.0	156.2	⬆ 29%	⬆ 28%	12%
Total sales revenue	**1,641.1**	**1,493.3**	**⬆ 10%**	**⬆ 9%**	**100%**

Sales revenue increased 10% (9% in constant currency*) to a record $1,641 million, driven by strong demand for acoustic implants and sound processor upgrades with all regions and product segments tracking above pre-COVID levels. While cochlear implant revenue growth rates improved across the year, we continued to experience variability in performance across countries with COVID and hospital staffing shortages impacting operating theatre capacity.

Cochlear implants

Cochlear implant units increased 5% to 38,182 units, with emerging markets growing ahead of developed markets. Sales revenue increased 3% in CC to $935.2 million.

Developed market units grew low single-digits for FY22 with second half volumes growing following a decline in the first half. Units overall were around 10% above pre-COVID levels.

US volumes were around 20% above pre-COVID levels with a swift and strong recovery in FY21 following COVID shutdowns partly offset by a small volume decline in FY22. While our professional partners reported strong patient pipelines and growing waiting lists, access to operating theatres was constrained throughout the year as a result of hospital staffing shortages. Our strong market share position continued to be supported by our market-leading product portfolio and growing suite of service offerings.

Performance in Western Europe was strong throughout the year following a COVID-affected FY21. The rate of recovery however continued to vary by country. Continental Europe volumes exceeded pre-COVID levels while volumes in the UK were still below pre-COVID levels.

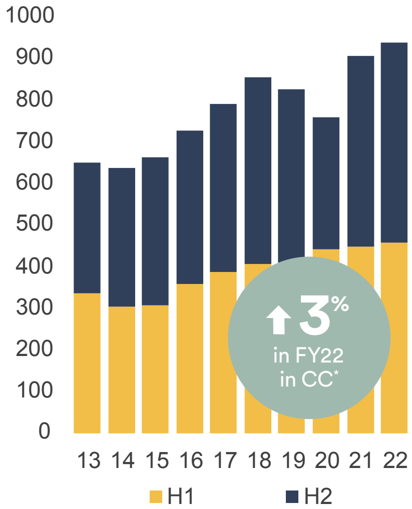
In the Asia Pacific region, Australian volumes were impacted by COVID-driven elective surgery deferrals with units still below pre-COVID levels.

The **emerging markets** experienced a strong recovery following COVID-related shutdowns with many countries trading above pre-COVID levels, including China and the Middle East. India and Brazil recovered well although volumes were still below pre-COVID levels.

* Constant currency (CC) removes the impact of exchange rate movements and foreign exchange (FX) contract gains/(losses) to facilitate comparability. See Notes on page 59 for further detail.

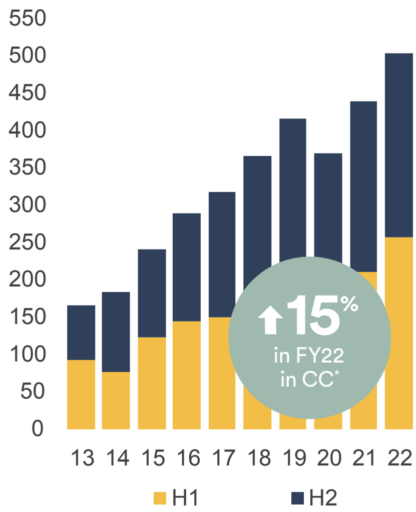
Cochlear implant sales revenue

$m in CC



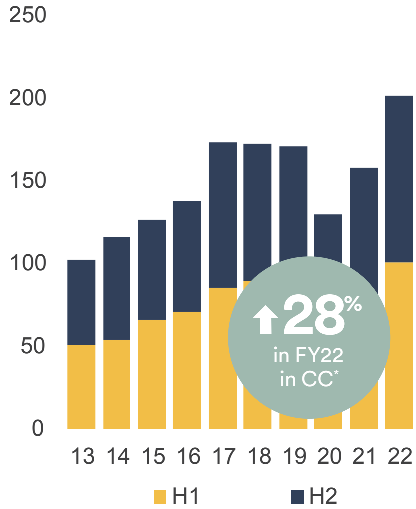
Services sales revenue

$m in CC



Acoustics sales revenue

$m in CC



Services (sound processor upgrades and other)

Services revenue increased 15% in CC to $503.9 million with the growing recipient base underpinning growing demand.

Sound processor upgrade revenue experienced strong growth, particularly in the first half, following the restricted access to clinics during COVID lockdowns.

Acoustics

Acoustics revenue increased by 28% in CC to a record $202.0 million, representing strong demand for new products and a recovery from COVID-related surgery delays.

The Cochlear™ Osia® 2 System achieved CE Mark accreditation during the second half of FY21, with the rollout commencing across Western Europe during FY22. Demand for the Osia 2 System continued to be strong in the US. The Cochlear™ Baha® 6 Max Sound Processor was launched in the fourth quarter of FY21 and drove strong demand for sound processor upgrades across all regions.

Financial review

Profit and loss

$m	2022	2021	Change % (reported)	Change % (CC)**
Sales revenue	**1,641.1**	**1,493.3**	**10%**	**9%**
Cost of sales	**411.0**	**410.2**	**0%**	**0%**
% Gross margin	*75%*	*73%*	*2 pts*	*2 pts*
Selling, marketing and general expenses	498.7	444.1	12%	12%
Research and development expenses	210.7	195.0	8%	9%
% of sales revenue	*13%*	*13%*	*0 pts*	*0 pts*
Administration expenses (excluding cloud investment)	137.4	112.2	22%	22%
Administration expenses (cloud investment)	21.6	3.9	454%	454%
Operating expenses	**868.4**	**755.2**	**15%**	**15%**
Other income / (expenses)	13.8	(5.9)		
FX contract gains / (losses)	7.2	4.3		
EBIT (underlying)*	**382.7**	**326.3**	**17%**	**11%**
*% EBIT margin**	*23%*	*22%*		
Net finance expense	6.2	8.4	(26%)	
Income tax expense*	99.5	83.9	19%	
% Effective tax rate	*26%*	*26%*		
Underlying net profit*	**277.0**	**234.0**	**18%**	**10%**
*% Underlying net profit margin**	*17%*	*16%*		
*% Underlying net profit margin (pre cloud investment)**	*18%*	*16%*		
One-off and non-recurring items (after-tax):				
Innovation fund gains	12.1	30.8		
Patent litigation-related tax & other	-	59.0		
Statutory net profit	**289.1**	**323.8**	**(11%)**	**(15%)**

Sales revenue increased 10% (9% in CC) to $1,641.1 million and underlying net profit increased 18% (10% in CC) to $277.0 million, within the guidance range of $265-285m, and with an underlying net profit margin of 17%. Excluding the impact of cloud computing-related expenses, the underlying net profit margin was 18%, in line with our long-term target. Statutory net profit of $289.1 million includes $12.1 million in one-off gains after-tax.

Key points of note:

- Cost of sales of $411.0 million was in line with last year (in both reported and CC) with the gross margin increasing two percentage points to 75%, back in line with the longer-term target gross margin;
- Selling, marketing and general expenses increased 12% (12% in CC) to $498.7 million reflecting continued investment in market growth activities, standard of care and market access initiatives;
- Investment in R&D increased 8% (9% in CC) to $210.7 million with continued investment made in key R&D projects and development of the product and services pipeline;

* Excluding one-off and non-recurring items ** Constant currency (CC) removes the impact of exchange rate movements and FX contract gains/(losses) to facilitate comparability. See Notes on page 59 for further detail.

- Administration expenses (excluding cloud investment) increased 22% (22% in CC) to $137.4 million driven primarily by increases in IT expenses, and also includes increases in insurance and costs associated with the Oticon Medical transaction; and
- Other income increased $19.7 million to $13.8 million primarily reflecting $15.8 million in balance sheet FX revaluation losses in FY21.

Cash flow

$m	2022	2021	Change
EBIT (underlying)	382.7	326.3	56.4
Depreciation and amortisation	73.0	76.4	(3.4)
Changes in working capital and other	(46.9)	(10.1)	(36.8)
Cash impact of US$75m AMF payment (pre-tax)	-	(104.4)	104.4
Net interest paid	(6.2)	(8.4)	2.2
Income taxes paid	(26.1)	(14.4)	(11.7)
Operating cash flow	**376.5**	**265.4**	**111.1**
Capital expenditure	(77.2)	(66.7)	(10.5)
Other net investments	(61.7)	(18.4)	(43.3)
Free cash flow	**237.6**	**180.3**	**57.3**
(Outlay) / proceeds from issue of shares	(1.1)	2.4	(3.5)
Dividends paid	(194.0)	(75.6)	(118.4)
Other	(20.4)	0.5	(20.9)
Change in net cash – increase / (decrease)	**22.1**	**107.6**	**(85.5)**

Operating cash flow increased $111.1 million to $376.5 million.

Key points of note:

- Strong sales growth and improved gross margin resulted in a $56.4 million improvement in underlying EBIT;
- The $36.8 million increase in working capital and other primarily reflects an increase in inventories;
- Income taxes paid of $26.1 million includes the benefit of a $61.5 million tax refund resulting from an overpayment of tax instalments paid in FY21;
- Capital expenditure (capex) increased by $10.5 million to $77.2 million, reflecting stay-in-business capex;
- Other net investments of $61.7 million comprises additional investment in the innovation fund – Nyxoah, Precisis and Epiminder; and
- Dividends paid increased $118.4 million reflecting the return to full dividend payments following COVID-related suspension.

Financial review

Capital employed

$m	2022	2021*	Change
Trade receivables	308.4	262.1	46.3
Inventories	270.2	216.1	54.1
Less: Trade payables	(232.4)	(202.9)	(29.5)
Working capital	**346.2**	**275.3**	**70.9**
Working capital / sales revenue	*21%*	*18%*	
Property, plant and equipment	260.2	239.5	20.7
Intangible assets	392.5	385.5	7.0
Investments & other financial assets	187.9	226.8	(38.9)
Other net liabilities	(87.8)	(2.1)	(85.7)
Capital employed	**1,099.0**	**1,125.0**	**(26.0)**
Funding sources:			
Equity	1,685.7	1,689.6	(3.9)
Less: Net cash	(586.7)	(564.6)	(22.1)
Capital employed	**1,099.0**	**1,125.0**	**(26.0)**

Capital employed declined by $26.0 million to $1,099.0 million since June 2021.

Key points of note:

- The increase in working capital was primarily driven by a $54.1 million increase in inventory, reflecting the building of safety stocks of both finished goods and some componentry in anticipation of potential global supply chain shortages;
- The $38.9 million decrease in investments & other financial assets includes cash investments in Precisis and Epiminder and net revaluation losses for publicly listed innovation fund investments Nyxoah and Sensorion;
- The $85.7 million reduction in other net liabilities primarily reflects the utilisation of tax losses from prior years;
- Net cash increased $22.1 million to $586.7 million.

Dividends

$m	2022	2021	Change %
Interim ordinary dividend (per share)	$1.55	$1.15	35%
Final ordinary dividend (per share)	$1.45	$1.40	4%
Total ordinary dividends (per share)	**$3.00**	**$2.55**	**18%**
% Payout ratio (based on underlying net profit)	71%	72%	
% Franking (final dividend)	40%	0%	

A final dividend of $1.45 per share has been determined, taking full year dividends to $3.00, an increase of 18% and representing a payout of 71% of underlying net profit.

The interim dividend was unfranked, and the final dividend is 40% franked. The franking balance had been depleted by losses incurred in FY20.

The ex-dividend date is 22 September 2022. The record date for calculating dividend entitlements is 23 September 2022 with the final dividend expected to be paid on 17 October 2022.

* Jun21 capital employed has been restated to reflect the impact of changes to recognition of cloud computing investments.

Notes

Forward-looking statements

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

Non-International Financial Reporting Standards (IFRS) financial measures

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

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

Sales revenue

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

Underlying net profit

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

Constant currency

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

Reconciliation of constant currency net profit to reported net profit

$m	2022	2021	Change %
Underlying net profit	**277.0**	**234.0**	**18%**
FX contract movement		2.9	
Spot exchange rate effect to sales revenue and expenses*		(1.5)	
Balance sheet revaluation*		15.9	
Underlying net profit (CC)	**277.0**	**251.3**	**10%**
One-off net gains	12.1	89.8	
Statutory net profit (CC)	**289.1**	**341.1**	**(15%)**

* FY22 actual v FY21 at FY22 rates. ** FY21 net profit has been restated to reflect the reclassification of cloud-related investment from capex to opex.

Governance

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

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

The Board considers that Cochlear's corporate governance practices have been consistent with the recommendations contained in the 4th edition of the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations released on 27 February 2019 (ASX Principles and Recommendations) throughout the reporting period from 1 July 2021 to 30 June 2022.

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

Structure and composition of the Board

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

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

Roles and responsibilities of the Board and management

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

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

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

Board's key responsibilities

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

Board and Board committee membership as at 30 June 2022

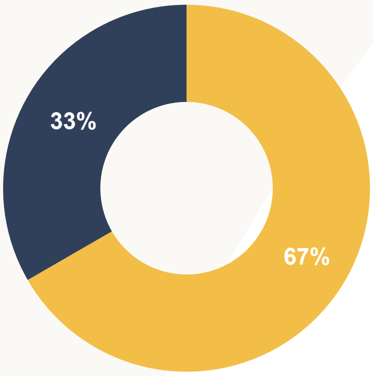
Director	Board	Audit and Risk Committee	Nomination Committee	Medical Science Committee	People and Culture Committee	Technology and Innovation Committee
Alison Deans	Chair		Chair			
Dig Howitt	Member			Member		Member
Yasmin Allen	Member	Chair	Member		Member	Member
Glen Boreham	Member	Member	Member		Chair	Member
Sir Michael Daniell	Member	Member	Member	Member		Chair
Michael del Prado	Member		Member	Member		Member
Andrew Denver	Member	Member	Member	Member		Member
Christine McLoughlin	Member	Member	Member		Member	Member
Prof Bruce Robinson	Member		Member	Chair	Member	Member

Chair Member

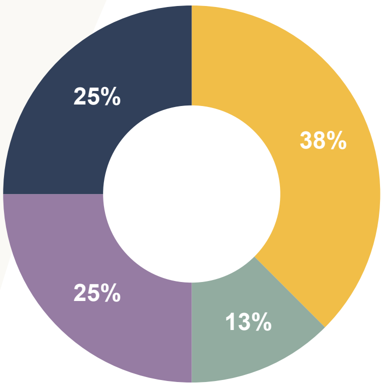
Governance
Board of directors

Board composition
As at 30 June 2022

Board gender diversity



Board tenure



Alison Deans
Chair

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

Chair of the Nomination Committee.

Background

Extensive experience leading technology-enabled businesses across e-commerce, media and financial services. Former Chief Executive Officer of netus, Hoyts Cinemas, ecorp and eBay Australia and New Zealand.

Other boards

Director, Ramsay Health Care Limited and Deputy Group Pty Ltd. Member of Investment Committee, CSIRO Innovation fund (Main Sequence Ventures) and member of AICD Corporate Governance Committee. Director of SCEGGS Darlinghurst Limited and The Observership Program.

Former directorships

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

Qualifications

BA, MBA, GAICD

Dig Howitt
CEO & President and Managing Director

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

Member of the Medical Science and Technology and Innovation Committees.

Background

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

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

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

Qualifications

BE (Hons), MBA

Board tenure chart excludes Managing Director.

Yasmin Allen
Non-executive Director

Appointed to the Board
2 August 2010

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

Background

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

Other boards

Chair of Australian Federal Government Steering Group for Digital Skills Organisation and Tic:Toc Home Loans. Director, Santos Limited, ASX Limited, QBE Insurance Group Limited and The George Institute for Global Health. Acting President Australian Government Takeovers Panel.

Former directorships

Insurance Australia Group Limited and National Portrait Gallery. National director of the Australian Institute of Company Directors. Member of The Salvation Army Advisory Board. Chair of Macquarie Specialised Asset Management, Faethm.org and Advance (Global Australian Network).

Qualifications

BCom, FAICD

Glen Boreham, AM
Non-executive Director

Appointed to the Board
1 January 2015

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

Background

Led organisations in information technology, new media and the creative industries through periods of rapid change and innovation. Former Managing Director of IBM Australia and New Zealand.

Other boards

Director, Southern Cross Media Group and Link Group. Strategic Advisor, IXUP.

Former directorships

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

Qualifications

BEc, FAICD

Sir Michael Daniell, KNZM
Non-executive Director

Appointed to the Board
1 January 2020

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

Background

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

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

Other boards

Director, Fisher & Paykel Healthcare Corporation Ltd. Director, Tait International Limited. Advisory Board Chair, Te Titoki Mataora (NZ). Director, Medical Research Commercialisation Fund.

Qualifications

BE (Hons) Electrical, CMInstD (NZ)

Governance

Board of directors

Michael del Prado
Non-executive Director

Appointed to the Board 1 January 2022

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

Background

Over 34 years' global experience in the medical device and pharmaceutical industries with senior executive leadership roles in Johnson & Johnson medical device businesses in the US, Asia-Pac and EMEA. Former Company Group Chairman of Ethicon, the world's largest and most comprehensive surgical company.

Other boards

Ambu A/S

Former directorships

Co-lead Director, Verb Surgical. Advisory Board, Singapore Management University Lee Kong Chian School of Business.

Qualifications

BSc Industrial Engineering, MBA, MA

Andrew Denver
Non-executive Director

Appointed to the Board 1 February 2007

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

Background

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

Other boards

Chairman, SpeeDx and Director, Vaxxas and QBiotics.

Former directorships

Executive Chairman, Universal Biosensors.

Qualifications

BSc (Hons), MBA, FAICD

Christine McLoughlin, AM
Non-executive Director

Appointed to the Board 1 November 2020

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

Background

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

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

Other boards

Chairman of the Suncorp Group Limited, Chancellor of the University of Wollongong. Chairman, Destination NSW.

Former directorships

NIB Holdings, the McGrath Foundation and Venues NSW.

Qualifications

BA, LLB (Hons), FAICD

Karen Penrose

Non-executive Director

Appointed to the Board 1 July 2022

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

Background

Extensive executive career in senior leadership and Chief Financial Officer roles in financial services. A highly respected company director, having served on the boards of a number of ASX100 companies and experienced across health care, financial services, property and infrastructure industries.

Other boards

Director, Ramsay Health Care Limited, Estia Health Ltd, Bank of Queensland Limited and Vicinity Centres (resignation effective 15 September 2022). Director, Ramsay Sante (associated with her directorship of Ramsay Health Care Limited), Rugby Australia and Marshall Investments.

Former directorships

Include Director, Spark Infrastructure Group.

Qualifications

BCom, CPA, FAICD

Prof Bruce Robinson, AC

Non-executive Director

Appointed to the Board 13 December 2016

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

Background

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

Other boards

Director, MaynePharma, QBiotics and Ecofibre. Director, Woolcock Institute of Medical Research. Senior Advisor to McKinsey & Company and Advisor to MinterEllison.

Former directorships

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

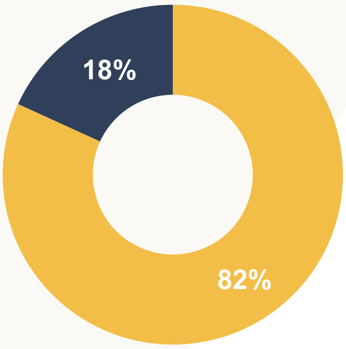
Qualifications

MD, MSc, FRACP, FAAHMS, FAICD

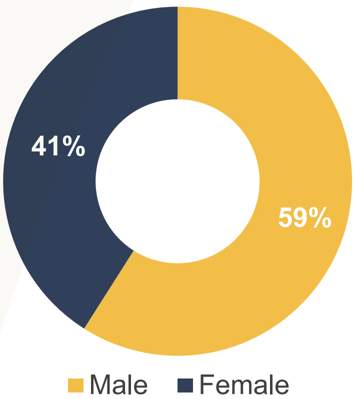
Governance
Executive team

Executive team & senior leader composition
As at 30 June 2022

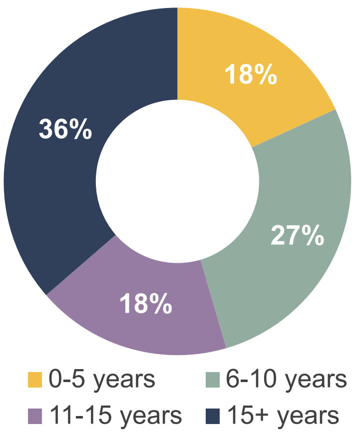
Executive team gender diversity



Senior leaders gender diversity



Executive team tenure



Dig Howitt
CEO & President

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

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

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

Qualifications

BE (Hons), MBA

Stu Sayers
Chief Financial Officer

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

Stu has a strong financial background and a wealth of experience in establishing and building customer focused technology and online businesses. Stu ran Amazon's subsidiary Audible in Asia Pacific, as well as E*TRADE and Yahoo!7 in Australia and New Zealand. He previously held senior roles with ANZ Bank and McKinsey.

Qualifications

BEc (Hons), MBA

Jan Janssen
Chief Technology Officer

Jan joined Cochlear in 2000. He was appointed Senior Vice President Research & Development in 2005 and became Chief Technology Officer in 2017.

Jan leads a team of over 500 highly qualified engineers and scientists who implement the R&D strategy with responsibility for identifying and developing cutting-edge technology and bringing these innovations through to commercialisation. He is also responsible for Business Development, Quality and Regulatory Affairs.

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

Qualifications

MScEE

Lisa Aubert
President, North America

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

Lisa was appointed as President, Americas Region in March 2022. Lisa joined Cochlear in 1994 and has deep experience across the Company in roles in Europe and the United States, including General Manager of UK/Ireland/South Africa, Regional Director of Europe North and most recently Vice President of Sales for Cochlear North America and Chair of Cochlear's Global Sales Council.

Qualifications

BA Communication Disorders, MA in Audiology, MBA

Richard Brook
President, EMEA

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

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

Qualifications

BSc Management, MBA

Governance

Executive team

Anthony Bishop
President, Asia Pacific & Latin America

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

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

Qualifications

BBus (Hons), MManagement, GAICD

Dean Phizacklea
Senior Vice President, Global Strategic Marketing

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

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

Qualifications

BSc Microbiology, MBA

David Hackshall
Chief Information Officer

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

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

Qualifications

DipFN, MIT, MBA

Greg Bodkin

Senior Vice President, Global Supply Chain

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

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

Qualifications

BE (Hons), MComm (UNSW)

Jennifer Hornery

Senior Vice President, Global People & Culture

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

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

Qualifications

BComm, MBA, GAICD

Brian Kaplan

Senior Vice President, Global Clinical Strategy and Innovation

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

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

Qualifications

BNeuroSci, BA, MD, FACS

Remuneration report

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

Dear Shareholders

On behalf of the Cochlear Board, I am pleased to present the FY22 Remuneration report where we outline our remuneration strategy, summarise the performance outcomes for FY22 and detail the associated remuneration outcomes for key management personnel.

Last year, the Board conducted a comprehensive review of executive remuneration with the outcome highlighting gaps in our long-term incentive (LTI) structure and fixed pay for select executives. We made changes to ensure executive pay was aligned to the market: we increased maximum LTI to 125% of base salary for the Chief Executive Officer & President and 90% of base salary for executive direct reports; and aligned fixed pay to market. The Board believes these changes have aligned the executives more effectively with the long-term growth objectives of the organisation and will ensure executive remuneration continues to be balanced, fair and equitable, and closely aligned with the interests of our shareholders.

FY22 performance and reward outcomes

The Board is satisfied that the reward outcomes under the short-term incentive (STI) plan for FY22 reflect the Company's performance. Overall sales revenue grew by 10%, exceeding revenue targets for the financial year. We also completed initiatives across several key strategic priorities: retaining our market share and strengthening our market position across the globe; growing the hearing implant market; and building an even stronger organisation as we grow. Strong performance in the year has resulted in the awarding of incentives above target to the CEO & President and executives under the FY22 STI plan.

Relative total shareholder return (TSR) against the ASX 100 was below median (at the 42nd percentile) and basic earnings per share (EPS) represented a (2.7)% compound annual growth rate over the last three years, which resulted in no vesting under the FY20-22 LTI plan. Further detail on this year's remuneration outcomes is provided in this report.

Our executive remuneration framework

The Board is committed to ensuring our executive remuneration framework and the associated reward outcomes align with our business objectives, performance, and shareholder expectations. Competition for talent in many of the markets in which Cochlear operates has increased in the last year. Cochlear has responded to this through targeted remuneration increases and by introducing changes to our reward offering to achieve greater alignment and consistency of how we reward employees across the business. The Board has also reviewed our STI performance scorecard for FY23 and it incorporates Environmental, Social and Governance metrics which will include targets for reduction of carbon emissions.

The Board has also reviewed the exercise period for options awarded under the LTI plan as a direct result of some executives being prevented from exercising vested options due to possessing inside information in a trading window. This approach is also more market aligned and provides a longer timeframe for executives to exercise and realise value from vested LTI, strengthening the alignment of executives' interests to those of shareholders.

Glen Boreham, AM
Chair, People & Culture Committee

Contents

This report covers:

1. Key management personnel;
2. Executive KMP remuneration received in FY22 (unaudited);
3. Our remuneration strategy and framework;
4. Executive KMP remuneration and link to performance;
5. Executive KMP statutory remuneration disclosure;
6. Executive service agreements;
7. Remuneration governance;
8. Executive KMP equity disclosures; and
9. Non-Executive Director fees.

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

1. Key management personnel

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

Name	Position	Term as KMP
Non-Executive Directors		
Alison Deans	Chair	Appointed as Chair effective 21 August 2021 (Previously Non-Executive Director for the period from 1 July 2021 to 20 August 2021)
Yasmin Allen	Non-Executive Director	Full year
Glen Boreham, AM	Non- Executive Director	Full year
Sir Michael Daniell, KNZM	Non- Executive Director	Full year
Michael del Prado	Non- Executive Director	Part year appointed 1 January 2022
Andrew Denver	Non-Executive Director	Full year
Christine McLoughlin, AM	Non-Executive Director	Full year
Bruce Robinson, AC	Non-Executive Director	Full year
Former Non-Executive Directors		
Rick Holliday-Smith	Former Chairman	Part year retired 20 August 2021
Abbas Hussain	Former Non-Executive Director	Part year until 20 July 2021
Executive KMP		
Dig Howitt	CEO & President (CEO&P)	Full year
Lisa Aubert	President, North America	Part year appointed 1 April 2022
Anthony Bishop	President, Asia Pacific & Latin America[1]	Full year
Richard Brook	President, EMEA	Full year
Jan Janssen	Chief Technology Officer	Full year
Stu Sayers	Chief Financial Officer (CFO)	Full year
Former Executive KMP		
Tony Manna	Former President, North America	Part year retired 31 March 2022

[1] Effective 1 July 2021, the Cochlear Latin American organisation reports to Anthony Bishop, President Asia Pacific & Latin America.

Karen Penrose was appointed to the Cochlear Board on 1 July 2022. There are no other changes to KMP after the reporting date and before the date the Directors' report was authorised for issue.

2. Executive KMP remuneration received in FY22 (unaudited)

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

The figures presented below are different to the statutory disclosures in section 5 which are prepared in accordance with the accounting standards and therefore include the accounting value for all unvested deferred STI and LTI awards expensed in the year. The table below has been provided voluntarily to ensure shareholders are able to clearly understand the remuneration outcomes and actual 'take-home pay' of executive KMP for FY22.

Amounts $	Year	Fixed remuneration[1]	Cash STI[2]	Vested deferred STI[3]	Vested LTI[4]	End of service	Total
Executive KMP							
D Howitt	**FY22**	**1,952,875**	**1,362,427**	**636,243**	**412,062**	**–**	**4,363,607**
	FY21	1,851,043	1,730,148	355,828	1,447,993	–	5,385,012
L Aubert[5]	**FY22**	**223,131**	**100,351**	**–**	**–**	**–**	**323,482**
A Bishop	**FY22**	**683,491**	**398,662**	**140,582**	**55,823**	**–**	**1,278,558**
	FY21	580,655	395,175	92,532	110,355	–	1,178,717
R Brook	**FY22**	**1,014,978**	**537,123**	**207,250**	**71,260**	**–**	**1,830,611**
	FY21	947,798	519,413	139,850	318,182	–	1,925,243
J Janssen	**FY22**	**972,990**	**465,143**	**243,241**	**85,202**	**–**	**1,766,576**
	FY21	885,655	635,708	140,270	354,151	–	2,015,784
S Sayers[6]	**FY22**	**871,068**	**443,685**	**–**	**–**	**–**	**1,314,753**
	FY21	406,325	220,630	–	–	–	626,955
Former Executive KMP							
T Manna[7]	**FY22**	**799,596**	**528,290**	**203,144**	**51,427**	**298,694**	**1,881,151**
	FY21	836,301	619,509	135,644	264,735	–	1,856,189

1 Fixed remuneration earned in the year (base salary, superannuation and non-monetary benefits which may include insurances and car allowances). Richard Brook's fixed remuneration for FY22 and FY21 excludes employer contributions for social security, accident and sickness and reflects actual 'take-home pay'. These amounts are included with the non-monetary benefits in the statutory table in section 5.

2 Cash STI earned and relating to performance during the financial year. For example, FY22 is reported as STI payments which are accrued at year end, and received in September 2022, after the reporting year end.

3 Vested deferred STI is the value of the deferred STI from prior years that vested in August of the reported financial year (calculated as the number of rights that vested multiplied by the share price on the vesting date). For example, FY22 is reported as the FY19 deferred STI grant which vested in August 2021.

4 Vested LTI is the value of performance rights and options that vested in August of the reported financial year (rights are calculated as the number of rights that vested multiplied by the share price on the vesting date and options are calculated as the number of options multiplied by the share price on the date of exercise less the exercise price). For example, FY22 is reported as the FY19 LTI grant which vested in August 2021 (25.04% of awards vested due to performance).

5 Remuneration for Lisa Aubert relates only to the period that she was KMP from 1 April 2022.

6 Remuneration for Stu Sayers relates only to the period that he was KMP from 1 January 2021.

7 Tony Manna retired from Cochlear on 31 March 2022. At the end of his service, he received a payment of $298,694 which relates to statutory entitlements and contractual benefits agreed. Refer to section 6.1 for further detail. In FY22, an ex-gratia cash payment was made to Tony Manna equivalent to the estimated net value of the benefit lost from the expiry of vested options, which were unable to be exercised in accordance with the Trading Policy. A payment of $30,171 was paid to Tony Manna in May 2022 and is included in vested LTI.

3. Our remuneration strategy and framework

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

Cochlear's mission and strategy

To help people hear and be heard

We deliver this through our corporate strategy and organisational capability …

- Retain market leadership
- Grow the hearing implant market
- Deliver consistent revenue and earnings growth
- Build a stronger organisation

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

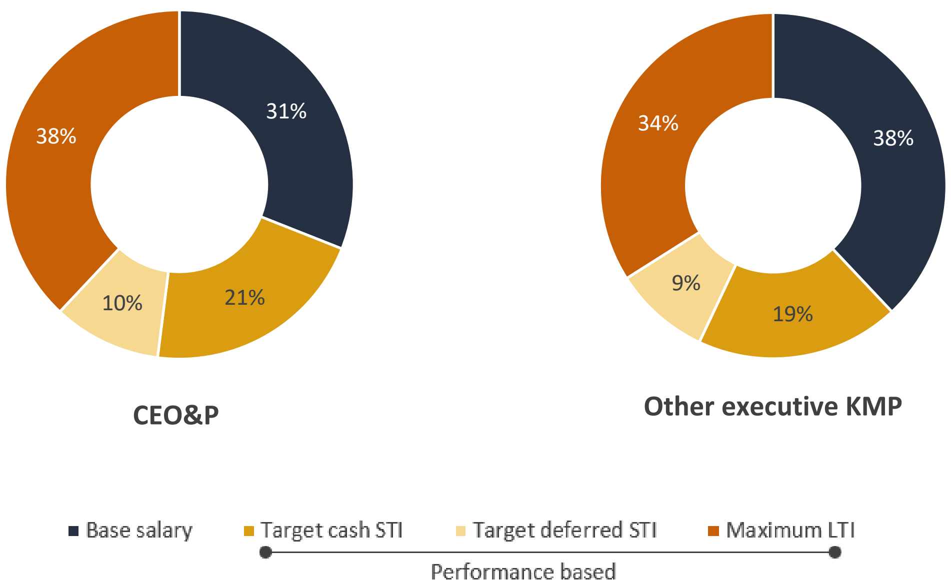
- Net profit after tax (NPAT)
- Sales revenue
- Achievement of business priorities and growth initiatives
- Relative total shareholder return (TSR)
- Compound annual growth rate (CAGR) in basic earnings per share (EPS)

… with actual outcomes directly driving executive remuneration.

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

3.1 Remuneration mix

The remuneration mix for executive KMP is weighted towards at-risk performance-based remuneration to ensure a strong focus on short, medium and long-term performance (69% for the CEO&P and 62% for other executive KMP). A portion of executive remuneration is delivered in equity (48% for the CEO&P and 43% for other executive KMP) to align our executives with shareholder interests.



3.2 Fixed remuneration

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

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

3.3 Short-term incentive

<table>
<tr><td>Purpose</td><td>To align and reward executives for the achievement of Cochlear group and regional (for regional executives) performance targets set by the Board at the beginning of the performance period.</td></tr>
<tr><td>Performance measures</td><td>STI is dependent on meeting financial and strategic performance measures:
<table>
<tr><th>Performance measure and weighting</th><th>Description</th></tr>
<tr><td>Performance Gateway</td><td>Group Performance Gateway (minimum NPAT threshold) to drive global alignment.</td></tr>
<tr><td>Sales revenue (60%)</td><td>Sales revenue growth is critical to short and longer-term shareholder returns.
Financial targets are set by the Board, having regard to prior year performance, global market conditions, competitive environment, future prospects and Board approved budgets. The targets incorporate a significant amount of stretch to ensure executives are engaged and incentivised to appropriately deliver results. The specific targets are not disclosed to the market due to their commercial sensitivity.</td></tr>
<tr><td>Strategic measures (40%)</td><td>Strategic measures recognise that in addition to short-term financial results, a number of strategic initiatives are required to enable sustained growth over time.</td></tr>
<tr><td>Individual contribution</td><td>Each executive's contribution against performance objectives is assessed at an individual level at the end of the performance period. This assessment determines the level at which awards are made.</td></tr>
</table>
Validation of performance against the measures set for:
the CEO&P involves a review by the Board based on financial inputs from the CFO, and approved by the P&CC and Board each year; and
other executive KMP involves a review by the CEO&P based on inputs from the CFO and approved by the P&CC.
Any anomalies or discretionary elements are validated and approved by the Board.
Refer to section 4 for further detail on measures for FY22.</td></tr>
<tr><td>Opportunity</td><td>CEO&P: target opportunity is 100% of base salary, and maximum is up to 180% of base salary.
Other executive KMP: target opportunity is 75% of base salary, and maximum is up to 135% of base salary.</td></tr>
<tr><td>Delivery</td><td>Two-thirds of the award is paid in cash annually, with one-third deferred into service rights for a period of two years (subject to a service condition) to reinforce alignment to longer-term shareholder interests and for retention purposes. No dividends are attached to service rights.
The number of rights to be allocated is calculated using the 'gross contract value', which refers to a Black-Scholes-Merton pricing model without discounting for service or performance hurdles. The model uses Cochlear's share price following the announcement of full year results in August each year.</td></tr>
<tr><td>Cessation of employment</td><td>Prior to STI payment date: if an executive ceases employment with Cochlear prior to any cash being paid, or service rights being granted, the executive will forfeit any awards to be paid for the performance period, unless the Board determines otherwise.
Post STI payment date: if an executive is dismissed for serious misconduct or resigns from their position after service rights have been granted, but prior to the relevant vesting date, any unvested rights will generally be forfeited, unless the Board determines otherwise.</td></tr>
</table>

3.4 Long-term incentive

<table>
<tr><td>Purpose</td><td>To align the remuneration opportunity for the executive team with shareholder value and provide a stimulus for the retention of executives within the Company.</td></tr>
<tr><td>Award vehicle</td><td>LTI is delivered as 50% options and 50% performance rights.</td></tr>
<tr><td>Opportunity</td><td>CEO&P: maximum opportunity is 125% of base salary.
Other executive KMP: maximum opportunity is 90% of base salary.
In FY22, we made changes to executive reward to ensure executive pay was aligned to the market: increasing maximum LTI to 125% of base salary for the CEO&P (previously 100%) and 90% of base salary for executive direct reports (previously 50%). The Board believes that these changes will align executives even more effectively with the long-term objectives of the organisation.</td></tr>
<tr><td>Allocation method</td><td>The LTI opportunity is calculated using the ‘gross contract value’, which refers to a Black-Scholes-Merton pricing model without discounting for service or performance hurdles.
Gross contract value discounts for dividends not paid, share price volatility and the risk free rate of return. There is no discount for the likelihood of service or performance conditions. The model uses Cochlear’s five-day volume-weighted average share price following the announcement of full year results in August each year.</td></tr>
<tr><td>Performance period</td><td>Performance is measured over a four-year performance period.
There is no retesting of performance hurdles under the LTI plan.</td></tr>
<tr><td>Exercise period (for options)</td><td>Post vesting, options expire seven months after the vesting date if they have not been exercised.
The Board reviewed the exercise period for options awarded under the LTI plan as a direct result of some executives being prevented from exercising vested options due to possessing inside information in a trading window. For FY23 and future LTI awards, the exercise period for vested options will be 25 months which is more market aligned and provides a longer timeframe for executives to exercise and realise value from vested LTI, strengthening the alignment of executives’ interests to those of shareholders. The Board will also have discretion to extend the exercise period for vested options by a further 12 months (up to 37 months) if an option holder is in possession of inside information in a trading window and is unable to exercise their vested options before expiry.</td></tr>
<tr><td>Performance measures and hurdles</td><td>Awards are subject to:

50% weighting on relative TSR against the constituents of the ASX 100 index as at the start of the performance period; and
50% weighting on compound annual growth rate (CAGR) in basic EPS.

The proportion of awards that vest for performance is:
<table>
<tr><th colspan="2">Relative TSR</th><th colspan="2">Basic EPS</th></tr>
<tr><th>Performance</th><th>% of instruments that vest</th><th>Performance (CAGR)</th><th>% of instruments that vest</th></tr>
<tr><td>Less than 50th percentile</td><td>0%</td><td>Less than 7.5%</td><td>0%</td></tr>
<tr><td>At the 50th percentile</td><td>40%</td><td>7.5%</td><td>50%</td></tr>
<tr><td>50th percentile to 75th percentile</td><td>40% to 100% (pro-rata)</td><td>7.5% to 12.5%</td><td>50% to 100% (pro-rata)</td></tr>
<tr><td>Above 75th percentile</td><td>100%</td><td>Above 12.5%</td><td>100%</td></tr>
</table>
These measures have been selected to incentivise the executive team towards long-term sustainable growth of the business and are generally accepted proxies for the creation of shareholder value.</td></tr>
<tr><td>Dividends</td><td>No dividends are attached to options or performance rights.</td></tr>
<tr><td>Cessation of employment</td><td>If an executive ceases employment with Cochlear before the end of the performance period, unvested LTI awards will generally be forfeited. In exceptional circumstances (including, but not limited to, redundancy and retirement), the Board may, in its discretion, determine that all or a portion of the award will vest in line with the original performance criteria and vesting date.</td></tr>
</table>

4. Executive KMP remuneration and link to performance

4.1 FY22 STI outcomes

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

When reviewing financial performance, the Board excludes revaluation gains and losses from non-core investments (the innovation fund) and the impact of one off and non-recurring items from the calculation of STI. For FY22, underlying NPAT was above the Group Performance Gateway and sales revenue grew 10%. In addition to financial measures, the Board also considered progress against strategic measures which are critical to the achievement of Cochlear's longer-term goals.

Validation of performance against the measures set for:

- the CEO&P involves an independent review and endorsement by the CFO, reviewed and approved by the P&CC and Board; and
- other executive KMP involves a review by the CEO&P based on inputs from the CFO with a final review undertaken by the P&CC.

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

The table below provides a summary, and achievement against each, of the financial measures and strategic measures of the STI plan. Measures are agreed with the P&CC at the commencement of each financial year and are aligned to the delivery of initiatives that support Cochlear's strategic priorities.

		Business priority	Commentary on performance	Achievement
Strategic measures (40%)	Retain market leadership	• Maintain market leadership through growing levels of investment in R&D (targeted at 12% of sales revenue) • Innovation focus on hearing implants, sound processing technology, connectivity and clinical and surgical support • Introduce new products that provide improved hearing outcomes, functionality, connectivity and aesthetic benefits • World-class customer experience • Grow connectivity and engagement with recipients • Introduce connected care solutions and skills training tools for recipients • Introduce sound processor upgrades that provide functional and aesthetic benefits • Develop technology solutions that provide greater convenience and confidence to professional customers	• Strong market position has been retained or improved in major markets through a very strong product and service portfolio and very good customer service • Invested over $200m in R&D, and achieved good progress in developing new products • Achieved milestones on the commercial roll out of Connected Care solutions being the first company to offer app-based Remote Care solutions to both acoustic and cochlear implant recipients • Cochlear Family membership grew by 20% to 260,000, with a 60% join rate for new Cochlear™ Nucleus® implant recipients	
	Grow the hearing implant market	• Improve the awareness of cochlear and acoustic implants • Broaden reimbursement and improve the indications for cochlear and acoustic implants • Support the development of consistent practice guidelines to strengthen the referral pathway for adults • Build on the clinical evidence that supports the superior outcomes of cochlear implants over hearing aids for people with severe or higher hearing loss • Collaborate with research institutions studying the links between hearing loss and healthy ageing	• Direct-to-consumer leads and surgeries exceeded target, driving growth of the business • Achieved milestones on referral programs and Standard of Care • OSIA roll out on schedule	

	Objective	Targets	Outcomes
	Build a stronger organisation	• Strengthen and nurture the organisational culture • Learning and development to facilitate innovation • Talent attraction and retention • Competitive, inclusive compensation and benefits to attract, motivate and retain talent • Succession planning • Embracing diversity in all forms • Improve quality, efficiency and agility • Complete major programs	• Completed initiatives on our cultural priorities to improve how we work together across the organisation to build a more integrated global organisation • Employee engagement maintained at 80% • Introduced changes to our reward offering to achieve greater alignment and consistency of reward across the business • Women in senior and executive management roles increased to 41%, exceeding our 40% target • Formalised our commitment to recognition and reconciliation through our first Reconciliation Action Plan • Deployed a range of training and leadership development programs
Financial measures (60%)	Deliver consistent revenue and earnings growth	• Optimise growth investment • Target an 18% net profit margin over the long term • Maintain a strong balance sheet • Improve efficiency and agility • Maintain high levels of corporate governance	• Delivered record sales revenue, with revenue growth of 10% • Revenue growth has been supported by strong performance in Acoustics from the Baha 6 launch and continued growth in OSIA • Agreement to acquire Oticon Medical, Demant's hearing implant business for ~A$170m

= Below expectations = Met expectations = Exceeded expectations

Key performance targets were exceeded for FY22 resulting in an average actual STI of 110.5% of target and 61.4% of maximum for executive KMP. The following STI payments were made as outlined in the table below.

Two-thirds of the actual STI will be delivered in cash in September 2022, and one-third will be deferred into service rights and subject to service conditions until August 2024.

	STI target as a % of base salary	STI maximum as a % of base salary	Actual STI as a % of target	Actual STI as a % of maximum	STI forfeited as a % of maximum	Actual STI ($)
Executive KMP						
D Howitt	100%	180%	107.6%	59.8%	40.2%	2,043,640
L Aubert[1]	75%	135%	102.5%	57.0%	43.0%	150,527
A Bishop	75%	135%	122.7%	68.1%	31.9%	597,993
R Brook	75%	135%	130.7%	72.6%	27.4%	805,684
J Janssen	75%	135%	100.0%	55.6%	44.4%	697,715
S Sayers	75%	135%	107.6%	59.8%	40.2%	665,528
Former Executive KMP						
T Manna[2]	75%	135%	102.5%	57.0%	43.0%	528,290

1 The STI payment presented in the table for Lisa Aubert relates to the time in KMP role from 1 April 2022 to 30 June 2022.

2 The STI payment presented in the table for Tony Manna relates to the time in KMP role from 1 July 2021 to 31 March 2022. The STI payment for Tony Manna will be delivered entirely in cash in September 2022.

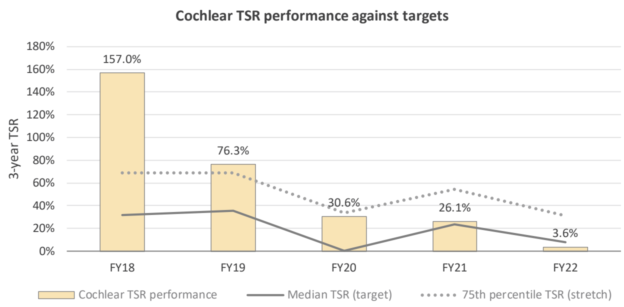
4.2 FY20-22 LTI vesting outcomes

For the FY20 LTI plan, a transitional arrangement was implemented to recognise that increasing the performance period from three to four years would result in a gap year of LTI vesting in FY22 for executives. The transitional arrangement applied to executives excluding the CEO&P. The FY20 LTI measures performance against relative TSR (50%) and basic EPS growth (50%) over a three-year and four-year performance period.

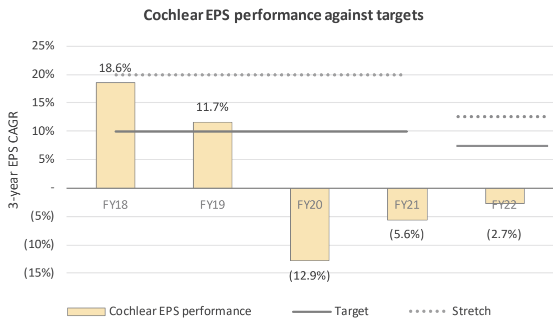
Presented below is the performance for the first tranche of the FY20 LTI grant subject to a three-year performance period to 30 June 2022. The second tranche of the FY20 LTI grant will be presented in next year's report.

The graphs below illustrate Cochlear's relative TSR and basic EPS performance against targets over the past five years. The capital raising in March 2020 and the impact of COVID on hospitals and healthcare systems around the world has significantly impacted the achievement of LTI performance hurdles.

For FY22, Cochlear's TSR performance was 3.6%, which was ranked at the 42nd percentile of the ASX 100 comparator group. This resulted in performance below target, and as a result, 0% of the TSR portion of the LTI vested.



Cochlear's basic EPS[1] in FY22 was 421.1 cents, which is a (2.7)% CAGR over the three-year performance period. This resulted in performance below target[2] and as a result, 0% of the EPS portion of the LTI vested.



For the FY20-22 LTI, 0% vests based on performance over the three-year period from 1 July 2019 to 30 June 2022.

[1] For the purpose of the FY20-22 LTI, EPS is determined based on underlying NPAT which excludes non-cash after tax gain/loss from the revaluation of innovation fund investments and the impact of one off and non-recurring items.

[2] EPS targets were revised in FY20 to ensure targets remained aligned to the Company's growth targets and current market conditions. Refer to Cochlear's 2019 Annual Report for further detail.

4.3 Financial performance history (FY18 to FY22)

	FY18	FY19	FY20	FY21[1]	FY22
Sales revenue ($million)[2]	1,351.4	1,446.1	1,352.3	1,493.3	1,641.1
Earnings/(loss) before interest and tax (EBIT) ($million)	348.4	370.1	(262.2)	370.2	400.0
Underlying EBIT ($million)	350.6	359.3	206.9	326.3	382.7
Reported EPS					
Net profit/(loss) after tax (NPAT) ($million)	245.8	276.7	(238.3)	323.8	289.1
Basic earnings/(loss) per share (EPS) (cents) – reported	427.3	460.9	(399.6)	492.6	439.6
EPS growth (3-year CAGR)	18.6%	13.2%	(200.8%)	4.9%	(2.9%)
Underlying EPS					
Underlying NPAT ($million)[3]	248.0	263.8	149.1	234.0	277.0
EPS (cents)[3]	427.3	457.2	250.0	356.0	421.1
EPS growth (3-year CAGR)[4]	18.6%	11.7%	(12.9%)	(5.6%)	(2.7%)
Share price and dividends					
Total dividend per share ($)	3.00	3.30	1.60	2.55	3.00
Share price as at 30 June ($)	200.17	206.84	188.93	251.67	198.70
Relative total shareholder return (TSR) (3 years)	157.0%	76.3%	30.6%	26.1%	3.6%
TSR percentile ranking[5]	97th	81st	72nd	54th	42nd

1 Except for EPS growth (3-year CAGR), FY21 has been restated for the accounting policy change in relation to cloud computing.
2 Excludes foreign exchange gain/(loss) on hedged sales.
3 Underlying NPAT and EPS for FY19 to FY21 has been restated for the accounting policy change in relation to cloud computing as they relate to LTI awards vesting in current and future years. Refer to Note 7.6 to the financial statements for further detail.
4 EPS growth for FY18 to FY21 is as reported in prior Remuneration Reports, as it relates to LTI awards that have already vested in prior years.
5 TSR percentile ranking is shown over three financial years to 30 June. For LTI, performance is compared to the TSR of the constituents of the ASX 100 as at the start of the relevant performance period.

For further explanation of details on Cochlear performance, see the Operational review and Financial review section on pages 54 to 59 of this Annual Report.

5. Executive KMP statutory remuneration disclosure

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

Amounts $	Year	Short-term benefits			Post-employment	Other long-term benefits	Share-based payments			End of service	Total	% of performance related remuneration
		Salary	Cash STI	Non-monetary benefits[1]	Superannuation contributions	Long service leave	Deferred STI[2]	LTI performance rights[3]	LTI options[3]			
Executive KMP												
D Howitt	**FY22**	**1,927,769**	**1,362,427**	**1,538**	**23,568**	**50,872**	**515,383**	**595,748**	**493,294**	**–**	**4,970,599**	**59.69%**
	FY21	1,827,811	1,730,148	1,538	21,694	(3,577)	472,519	293,673	518,191	–	4,861,997	62.00%
L Aubert[4]	**FY22**	**196,307**	**100,351**	**16,845**	**9,979**	**–**	**60,597**	**–**	**–**	**–**	**384,079**	**41.90%**
A Bishop	**FY22**	**659,000**	**398,662**	**923**	**23,568**	**10,490**	**132,251**	**122,782**	**101,346**	**–**	**1,449,022**	**52.11%**
	FY21	558,038	395,175	923	21,694	5,605	106,554	57,734	64,375	–	1,210,098	51.55%
R Brook	**FY22**	**818,678**	**537,123**	**155,331**	**136,502**	**–**	**175,692**	**160,559**	**132,497**	**–**	**2,116,382**	**47.53%**
	FY21	755,888	519,413	146,392	123,202	–	146,558	80,754	105,122	–	1,877,329	45.38%
J Janssen	**FY22**	**947,884**	**465,143**	**1,538**	**23,568**	**12,897**	**183,460**	**185,570**	**152,856**	**–**	**1,972,916**	**50.03%**
	FY21	862,423	635,708	1,538	21,694	(18,030)	176,357	90,036	117,930	–	1,887,656	54.04%
S Sayers[5]	**FY22**	**846,577**	**443,685**	**923**	**23,568**	**8,219**	**148,066**	**131,525**	**109,960**	**–**	**1,712,523**	**48.66%**
	FY21	395,020	220,630	458	10,847	9,133	56,846	18,348	24,128	–	735,410	38.25%
Former Executive KMP												
T Manna[6]	**FY22**	**734,346**	**528,290**	**53,094**	**12,156**	**–**	**200,493**	**207,308**	**200,214**	**298,694**	**2,234,595**	**50.85%**
	FY21	764,830	619,509	52,057	19,414	–	162,052	75,093	126,835	–	1,819,790	54.04%
B Cubis	FY21	158,486	–	233	6,108	746	47,473	21,611	32,030	327,132	593,819	17.03%
Total	**FY22**	**6,130,561**	**3,835,681**	**230,192**	**252,909**	**82,478**	**1,415,942**	**1,403,492**	**1,190,167**	**298,694**	**14,840,116**	**52.87%**
	FY21	5,322,496	4,120,583	203,139	224,653	(6,123)	1,168,359	637,249	988,611	327,132	12,986,099	53.25%

[1] Non-monetary benefits include insurances for all KMP and car and housing allowances for overseas-based KMP which are market-based payments. For Richard Brook, the amount also includes compulsory social security contributions of approximately $96,000 for FY22 and $78,000 for FY21.

[2] Deferred STI is granted in service rights and deferred for a further two years. The cost of the plan is expensed across three years. The FY22 amount represents the portion of the FY21 and FY22 deferred STI expensed in FY22. The FY21 amount represents the portion of the FY19 and FY21 deferred STI expensed in FY21. There was no expense for FY20 deferred STI as no awards were made in the year.

[3] LTI granted in performance rights and options are expensed evenly over the period from grant date to vesting date. The value is calculated at the date of grant using the Black-Scholes-Merton pricing model discounted for vesting probabilities of non-market performance criteria. The amount expensed each reporting period includes adjustments to the life-to-date expense of grants based on the reassessed estimate of achieving non-market performance criteria and final vesting amounts for the non-market performance criteria of performance rights and options. The value disclosed above is the portion of the value of the performance rights and options recognised as an expense in the financial year. The ability to exercise the performance rights and options is conditional on Cochlear achieving certain performance hurdles. Further details of performance rights and options granted during the financial year are set out in this report.

[4] Remuneration for Lisa Aubert only relates to the period that she was KMP from 1 April 2022.

[5] Remuneration for Stu Sayers only relates to the period that he was KMP from 1 January 2021.

[6] Tony Manna retired on 31 March 2022. At the end of his service, he received a payment of $298,694 which relates to statutory entitlements and contractual benefits agreed. Share-based payment values presented include an expense of $101,805 for LTI performance rights and $121,323 for LTI options that would normally have been amortised over future years for awards that remain subject to vesting hurdles and timeframes, and LTI may not be paid out if conditions are not met. Refer to section 6.1 for further detail. In FY22, an ex-gratia cash payment was made to Tony Manna equivalent to the estimated net value of the benefit lost from the expiry of vested options, which were unable to be exercised in accordance with the Trading Policy. A payment of $30,171 was paid to Tony Manna in May 2022 and is disclosed in LTI options in the table above.

6. Executive service agreements

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

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

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

6.1 End of service for former executives

Tony Manna retired from Cochlear on 31 March 2022. At the end of his service, he received:

- payment of $176,097 as part of a contractual agreement; and
- payment of $122,597 relating to accrued but unused vacation leave relating to service provided.

The Board applied its discretion to allow some prior equity grants to remain on-foot subject to the original terms of those awards (both time and performance hurdles). The awards are detailed in section 8 and are eligible for vesting in August 2022, August 2023, and August 2024.

The Board applied its discretion to allow a pro-rata STI to be awarded for FY22 in cash, payable in September 2022, based on both company and individual performance.

7. Remuneration governance

7.1 Governance framework for remuneration at Cochlear

The Board is responsible for all areas of Cochlear's strategy and policy related to its people. Consistent with this responsibility, the Board has established the P&CC which comprises solely of independent NEDs.

Management

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

People & Culture Committee

- The P&CC is empowered to source any internal resources and obtain external independent professional advice it considers necessary to enable it to review management proposals and make decisions on behalf of the Board on:
  - Remuneration policy, composition, quantum and performance targets for executive KMP
  - Remuneration policy in respect of NEDs
  - Organisational culture, diversity and inclusion, talent management and leadership development strategies and practices
  - Work, health and safety metrics and initiatives
  - Design features of employee and executive STI and LTI awards

Board

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

7.2 Advice from external advisors

To inform decisions, the P&CC sought advice and (at times) recommendations from the CEO&P and other management throughout the year. During FY22, the P&CC appointed Guerdon Associates (Guerdon) as its external remuneration advisor. The P&CC engaged Guerdon to provide information used as an input to the annual review of Executive KMP and NED remuneration.

No remuneration recommendations (as defined by the *Corporations Act 2001* (Cth)) were provided by Guerdon or any other advisor during the year.

7.3 Share ownership requirements

Executive KMP are required to retain vested equity until they hold and maintain a holding of Cochlear shares equivalent to their annual salary in the previous year. Until this requirement is met, Executive KMP must retain shares derived from participation in incentive plans), except sales to meet the cost of exercising any options and sales to meet tax on participation in the plan. The Board considers the minimum shareholding guidelines to be best practice to strengthen the alignment of executives' interests to those of shareholders. The table in section 8.2 details the current holdings of executive KMP.

7.4 Clawback Policy and discretion

All participants of the deferred STI and LTI plans are subject to the Clawback Policy, available in the 'Investors Centre' section of the Company's website. The policy enables the Board to claw back remuneration outcomes in the event of a material non-compliance with any financial reporting requirement, misconduct, or following inappropriate behaviour post-employment in cases where the Board has exercised its discretion to allow retention of equity following termination of employment. The policy is designed to further align the interests of participants with the long-term interests of Cochlear and shareholders, and to ensure that excessive risk taking is not rewarded.

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

8. Executive KMP equity disclosures

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

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

8.1 Equity granted as remuneration

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

Equity granted in FY22 under the CEIP has been approved by shareholders for the CEO&P in accordance with ASX Listing Rule 10.14.

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

	Plan	Grant date	Options		Performance rights		Vesting date	Vested	Forfeited
			Number	Maximum value to be expensed ($)[1]	Number	Maximum value to be expensed ($)[1]			
Executive KMP									
D Howitt	FY19 LTI	17-Oct-18	35,907	–	1,685	–	23-Aug-21	25.0%	75.0%
	FY19 deferred STI	17-Sep-19	–	–	2,634	–	23-Aug-21	100.0%	0.0%
	FY20 LTI	23-Oct-19	24,041	107,409	4,432	73,685	16-Aug-23		
	FY21 LTI	21-Oct-20	21,217	431,973	4,782	374,538	21-Aug-24		
	FY21 deferred STI	30-Sep-21	–	–	3,851	288,312	16-Aug-23		
	FY22 LTI	20-Oct-21	21,808	817,056	5,341	697,021	20-Aug-25		
	Total		**102,973**	**1,356,438**	**22,725**	**1,433,555**			
L Aubert[2]	–	–	–	–	–	–	–	–	–
	Total		**–**	**–**	**–**	**–**			
A Bishop	FY19 LTI	17-Oct-18	1,598	–	700	–	23-Aug-21	25.0%	75.0%
	FY19 deferred STI	17-Sep-19	–	–	582	–	23-Aug-21	100.0%	0.0%
	FY20 LTI	23-Oct-19	2,014	–	332	–	22-Aug-22		
	FY20 LTI	23-Oct-19	2,745	12,264	506	8,413	16-Aug-23		
	FY21 LTI	21-Oct-20	3,230	65,762	728	57,019	21-Aug-24		
	FY21 deferred STI	30-Sep-21	–	–	879	65,808	16-Aug-23		
	FY22 LTI	17-Sep-21	5,371	201,229	1,315	171,612	20-Aug-25		
	Total		**14,958**	**279,255**	**5,042**	**302,852**			
R Brook	FY19 LTI	17-Oct-18	4,565	–	857	–	23-Aug-21	25.0%	75.0%
	FY19 deferred STI	17-Sep-19	–	–	858	–	23-Aug-21	100.0%	0.0%
	FY20 LTI	23-Oct-19	2,679	–	442	–	22-Aug-22		
	FY20 LTI	23-Oct-19	3,652	16,316	673	11,189	16-Aug-23		
	FY21 LTI	21-Oct-20	4,911	99,987	1,106	86,625	21-Aug-24		
	FY21 deferred STI	30-Sep-21	–	–	1,151	86,172	16-Aug-23		
	FY22 LTI	17-Sep-21	6,422	240,606	1,572	205,152	20-Aug-25		
	Total		**22,229**	**356,909**	**6,659**	**389,137**			
J Janssen	FY19 LTI	17-Oct-18	5,223	–	981	–	23-Aug-21	25.0%	75.0%
	FY19 deferred STI	17-Sep-19	–	–	1,007	–	23-Aug-21	100.0%	0.0%
	FY20 LTI	23-Oct-19	3,237	–	534	–	22-Aug-22		
	FY20 LTI	23-Oct-19	4,413	19,716	813	13,517	16-Aug-23		
	FY21 LTI	21-Oct-20	5,197	105,810	1,171	91,716	21-Aug-24		
	FY21 deferred STI	30-Sep-21	–	–	1,415	105,936	16-Aug-23		
	FY22 LTI	17-Sep-21	7,685	287,925	1,882	245,608	20-Aug-25		
	Total		**25,755**	**413,451**	**7,803**	**456,777**			
S Sayers[3]	FY21 deferred STI	30-Sep-21	–	–	990	74,118	16-Aug-23		
	FY22 LTI	17-Sep-21	7,636	286,089	1,870	244,042	20-Aug-25		
	Total		**7,636**	**286,089**	**2,860**	**318,160**			
Former Executive KMP									
T Manna	FY19 LTI	17-Oct-18	7,530	–	353	–	18-Aug-21	25.0%	75.0%
	FY19 deferred STI	17-Sep-19	–	–	841	–	18-Aug-21	100.0%	0.0%
	FY20 LTI	23-Oct-19	3,055	–	504	–	22-Aug-22		
	FY20 LTI	23-Oct-19	4,165	–	767	–	16-Aug-23		
	FY21 LTI	21-Oct-20	5,045	–	1,137	–	21-Aug-24		
	FY21 deferred STI	30-Sep-21	–	–	1,339	–	16-Aug-23		
	FY22 LTI	17-Sep-21	6,725	–	1,647	–	20-Aug-25		
	Total		**26,520**	**–**	**6,588**	**–**			

1 The options granted in FY22 have an exercise price of $232.52, and an expiry date of 20 March 2026. Fair values (IFRS-2) of FY22 options and performance rights under the LTI plan as at the date of grant are as follows: options (EPS growth: $54.45; relative TSR: $45.46) and

performance rights (EPS growth: $222.32; relative TSR: $125.69). This valuation is for accounting purposes only and forms the basis of the expense in future years. Further detail on the allocation methodology is provided in section 3.4.

2 In FY22, Lisa Aubert did not receive any equity grants as a KMP.

3 LTI reported for Stu Sayers relates to his KMP role only and includes a pro-rated LTI to reflect his appointment to the CFO role during FY21. His FY21 deferred STI grant relates to his executive role for the period from 1 July 2020 to 31 December 2020, and his KMP role from 1 January 2021 to 30 June 2021.

8.2 Executive KMP equity holdings and minimum shareholding

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

Shares held during the year

During the year, the FY19 deferred STI plan and FY19 LTI plan vested in August 2021, and executives' options/rights converted into shares under these plans.

	Balance 1 July 2021	Received on exercise of options/rights[1]	Purchases and sales	Balance 30 June 2022
Executive KMP				
D Howitt	45,731	12,046	(8,991)	**48,786**
L Aubert[2]	52	326	(257)	**121**
A Bishop	2,499	1,157	(582)	**3,074**
R Brook	9,366	2,215	(3,581)	**8,000**
J Janssen	6,786	2,559	(1,252)	**8,093**
S Sayers	2,575	687	(420)	**2,842**
Former Executive KMP				
T Manna	4,729	929	(269)	**N/A**

1 For options exercised, the amount paid per option was the exercise price of $202.84. For Lisa Aubert and Stu Sayers, shares received on exercise of options/rights relates to roles prior to appointment as KMP.

2 The opening balance for Lisa Aubert reflects the balance of shares held on commencement in KMP role on 1 April 2022. Movements in shares relate to roles prior to appointment as KMP.

Rights held during the year

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

- Granted: FY22 LTI awards were granted in September/October 2021; and
- Vested: 100% of the FY19 deferred STI award and 25.04% of the FY19 LTI award vested in August 2021.

	Balance 1 July 2021	Deferred STI service rights[1]			LTI performance rights[1]			Balance 30 June 2022
		Granted	Vested	Forfeited	Granted	Vested	Forfeited	
Executive KMP								
D Howitt	13,533	3,851	(2,634)	–	5,341	(421)	(1,264)	**18,406**
L Aubert[2]	326	586	(326)	–	–	–	–	**586**
A Bishop	2,848	879	(582)	–	1,315	(175)	(525)	**3,760**
R Brook	3,936	1,151	(858)	–	1,572	(214)	(643)	**4,944**
J Janssen	4,506	1,415	(1,007)	–	1,882	(245)	(736)	**5,815**
S Sayers	2,026	990	(579)	–	1,870	(108)	(324)	**3,875**
Former Executive KMP								
T Manna	3,602	1,339	(841)	–	1,647	(88)	(1,912)	**N/A**

1 For Lisa Aubert and Stu Sayers, granted and vested awards also relate to roles prior to appointment as KMP.

2 The opening balance for Lisa Aubert reflects the balance of shares held on commencement in KMP role on 1 April 2022.

Options held during the year

Options over ordinary shares are acquired by executive KMP under the LTI plan. During the year, FY22 LTI awards were granted in September/October 2021 and 25.04% of the FY19 LTI award vested in August 2021.

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

	Balance 1 July 2021	LTI options				Balance 30 June 2022
		Granted	Vested and exercised[1]	Vested and lapsed	Forfeited	
Executive KMP						
D Howitt	81,165	21,808	(8,991)	–	(26,916)	**67,066**
L Aubert	–	–	–	–	–	**–**
A Bishop	9,587	5,371	(400)	–	(1,198)	**13,360**
R Brook	15,807	6,422	(1,143)	–	(3,422)	**17,664**
J Janssen	18,070	7,685	(1,307)	–	(3,916)	**20,532**
S Sayers[2]	7,489	7,636	–	(576)	(1,727)	**12,822**
Former Executive KMP						
T Manna	19,795	6,725	–	(1,885)	(12,370)	**N/A**

[1] The value of exercised options at the date of vesting is $38.71 (closing share price at the vesting date 23 August 2021 of $241.55 less the exercise price of $202.84).

[2] For Stu Sayers, options movements also relate to his role prior to appointment as KMP.

Executive minimum shareholding

As at 30 June 2022, the Board is satisfied that the executive KMP are compliant with the Share Ownership Policy. The table below presents a summary of executive KMP holdings and compliance with minimum shareholding requirements.

	Ordinary shares held	Policy value of Cochlear shares at year end ($)[1]	% of base salary[2]
Executive KMP			
D Howitt	48,786	10,799,757	568%
L Aubert[3]	121	26,786	3%
A Bishop	3,074	680,491	105%
R Brook	8,000	1,770,960	215%
J Janssen	8,093	1,791,547	193%
S Sayers	2,842	629,134	76%

[1] In line with the Share Ownership Policy, the value has been calculated as the average daily share price over the previous 12 months ($221.37), as at closing on the ASX up to 30 June 2022, times the number of shares.

[2] The % of base salary is calculated as the value of shares divided by the contractual base salary as at 30 June 2022.

[3] Lisa Aubert was appointed to the Executive team effective 1 April 2022.

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

The Board encourages employee ownership of Cochlear shares. To restrict dilution of shareholders' interests, the total employee interests in unvested equity cannot exceed 5% of share capital.

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

	Grant date	Number of options			Exercise price per share ($)	Exercise period	Current net value of outstanding options as at 30 June 2022 ($)[2]
		Issued	Forfeited/ lapsed[1]	At report date			
FY20 LTI	23-Oct-19	24,231	–	24,231	217.28	Aug-22 to Mar-23	–
FY20 LTI	23-Oct-19	57,074	(5,272)	51,802	217.28	Aug-23 to Mar-24	–
FY21 LTI	21-Oct-20	55,729	(998)	54,731	206.06	Aug-24 to Mar-25	–
FY22 LTI	17-Sep-21 (Executive KMP) 20-Oct-21 (CEO&P)	80,240	(6,725)	73,515	232.52	Aug-25 to Mar-26	–
Total		**217,274**	**(12,995)**	**204,279**			–

1 Forfeited/lapsed options from unvested grants relate to plan participants who have departed Cochlear.

2 Represents the number of options as at report date multiplied by the value of an option as at 30 June 2022 (exercise price less the closing share price as at 30 June 2022 of $198.70).

Total unvested equity currently accounts for approximately 0.45% of the total number of issued shares, as set out below.

Instrument	Number of equivalent shares at 30 June 2022
Unvested LTI options	204,279
Unvested LTI rights	43,873
Unvested deferred STI rights	38,900
Service rights under the APAC Employee Equity Plan[1]	9,176
Total	**296,228**
As % of total issued shares	0.45%
Number of issued shares	65,775,339

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

8.4 Transactions and loans with KMP

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

9. Non-Executive Director fees

NEDs are paid from an aggregate annual fee pool for FY22 of $3,000,000 (approved at the 2017 Annual General Meeting). Total remuneration paid during the year was $2,370,608 which is within the fee pool limit (represented 79% of the fee pool).

NEDs do not receive any performance-related remuneration, options or performance rights.

9.1 Fee policy and changes during the year

Board fees must recognise the effort required to fulfil the responsibilities of a director. Reflecting the increasing governance requirements and the work of the Board, the Board considered it appropriate to increase annual Chair fees by 3% and base Member fees by 4%, effective 1 July 2021. Committee fees remain unchanged. This decision was made with reference to external remuneration benchmarking of companies of a similar market capitalisation to that of Cochlear.

The table below outlines the policy base and committee fees for FY21 and FY22.

Amounts $[1]	**FY21**		**FY22**	
	Chair	**Member**	**Chair**	**Member**
Cochlear Board	518,547	169,923	534,103	176,720
Committees[2]				
Audit & Risk	50,000	25,000	50,000	25,000
People & Culture	40,000	20,000	40,000	20,000
Technology & Innovation	40,000	20,000	40,000	20,000
Medical Science	30,000	15,000	30,000	15,000
Nomination	No fee	No fee	No fee	No fee

1 Superannuation contributions have been made in accordance with Australian superannuation legislation at a rate of 10% up to the Australian Government's prescribed maximum contributions limit. Fees are presented exclusive of superannuation.

2 Committee fees are not paid to the Chairman of the Board.

NEDs are entitled to reimbursement for costs directly related to Cochlear business including reasonable travel, accommodation and other expenses incurred attending meetings of the Board, committees or shareholders, or while engaged on company business.

It is recognised that as an Australian headquartered business, for some overseas-based Non-Executive Directors substantial additional travel may be required to attend meetings or other Board-related matters in Australia. Effective February 2022, a travel allowance of $10,000 per return trip is in place for internationally based Non-Executive Directors who travel to and from Australia to attend Board and/or committee meetings or other Board-related matters (when air travel exceeds 10 hours). The allowance is paid on a per return trip basis and is in addition to the reimbursement of travel costs. In FY22, one NED based in the United States received a travel allowance of $10,000 to reflect one trip to Australia to attend Board meetings.

9.2 NED statutory remuneration

The table below presents the total remuneration for NEDs.

Amounts $	Year	Short-term benefits		Post-employment benefits	Total
		Fees	Travel allowance	Superannuation	
Non-Executive Directors					
A Deans[1] (Chair)	**FY22**	**495,341**	–	**23,568**	**518,909**
	FY21	253,551	–	21,694	275,245
Y Allen	**FY22**	**266,720**	–	**23,568**	**290,288**
	FY21	258,523	–	21,694	280,217
G Boreham, AM	**FY22**	**261,720**	–	**23,568**	**285,288**
	FY21	253,550	–	21,694	275,244
M Daniell, KNZM	**FY22**	**246,547**	–	**22,946**	**269,493**
	FY21	203,819	–	20,216	224,035
M del Prado[2]	**FY22**	**104,231**	**10,000**	**10,423**	**124,654**
A Denver	**FY22**	**236,720**	–	**22,710**	**259,430**
	FY21	228,685	–	21,694	250,379
C McLoughlin, AM[3]	**FY22**	**235,797**	–	**22,979**	**258,776**
	FY21	137,641	–	13,076	150,717
B Robinson, AC	**FY22**	**246,720**	–	**23,171**	**269,891**
	FY21	238,631	–	21,694	260,325
Former Non-Executive Directors					
R Holliday-Smith[4]	**FY22**	**76,007**	–	**5,892**	**81,899**
	FY21	515,755	–	21,694	537,449
A Hussain[5]	**FY22**	**11,034**	–	**946**	**11,980**
	FY21	203,819	–	20,216	224,035
D O'Dwyer[6]	FY21	68,623	–	7,309	75,932
Total	**FY22**	**2,180,837**	**10,000**	**179,771**	**2,370,608**
	FY21	2,362,597	–	190,981	2,553,578

1 Alison Deans was appointed as Chair effective 21 August 2021.

2 Michael del Prado was appointed to the Board on 1 January 2022. Michael del Prado is a tax resident of the US and a non-resident of Australia for income tax purposes and is exempt from Australian superannuation guarantee obligations. An equivalent amount of $10,423 was paid over the period from 1 January 2022 to 30 June 2022 as fees in lieu of superannuation guarantee payments which would have been received.

3 Christine McLoughlin was appointed to the Board on 1 November 2020. Effective 1 October 2021, Christine McLoughlin has opted out of receiving superannuation guarantee payments in accordance with the *Superannuation Guarantee (Administration) Act 1992* (Cth). An equivalent amount of $17,863 was paid over the period from 1 October 2021 to 30 June 2022 as fees.

4 Rick Holliday-Smith retired from the Board on 20 August 2021.

5 Abbas Hussain resigned from the Board on 20 July 2021.

6 Donal O'Dwyer retired from the Board on 20 October 2020.

9.3 Minimum shareholding requirement for NEDs

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

As at 30 June 2022, all NEDs with the exception of one are compliant with the Share Ownership Policy which allows three years to build their shareholdings. The table below presents Cochlear Limited shareholdings for each NED.

	Balance 1 July 2021	Purchases	Sales	Balance 30 June 2022	Policy value of shares as at 30 June 2022 ($)[1]	% of fees
Non-Executive Directors						
A Deans	4,000	–	–	4,000	885,480	166%
Y Allen	3,714	–	–	3,714	822,168	308%
G Boreham, AM	3,014	–	–	3,014	667,209	255%
M Daniell, KNZM	1,214	–	–	1,214	268,743	105%
M del Prado[2]	–	–	–	–	–	0%
A Denver	4,214	–	–	4,214	932,853	394%
C McLoughlin, AM	1,000	650	–	1,650	365,261	151%
B Robinson, AC[3]	1,083	–	–	1,083	239,744	97%
Former Non-Executive Directors						
R Holliday-Smith	10,214	–	–	N/A	N/A	N/A
A Hussain	1,226	–	–	N/A	N/A	N/A

[1] In line with the Share Ownership Policy, available in the 'Investors Centre' section of the Company's website, the value of Cochlear Limited ordinary shares is calculated using the average daily share price over the previous 12 months ($221.37), as at closing on the ASX up to 30 June 2022, times the number of shares.

[2] Michael del Prado was appointed to the Board on 1 January 2022 and in accordance with the policy has until 1 January 2025 to build his shareholding.

[3] Bruce Robinson fell below the minimum shareholding requirement as calculated as at 30 June 2022. He is actively working towards meeting the policy requirement by December 2022.

Directors' report

The directors present their report, together with the Consolidated Financial report of the Consolidated Entity (Cochlear), being Cochlear Limited (the Company) and its controlled entities, for the year ended 30 June 2022, and the Auditor's report thereon.

Directors

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

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

Company Secretary

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

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

Directors' meetings

The number of directors' meetings (including meetings of committees of directors) and number of meetings attended by each of the directors[1] of the Company during the financial year were:

	Board of Directors		Audit & Risk Committee		People & Culture Committee		Medical Science Committee		Nomination Committee		Technology & Innovation Committee	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended	Held	Attended	Held	Attended
A Deans[2]	11	11	1	1	1	1	–	–	6	6	1	1
YA Allen	11	11	4	4	4	4	–	–	6	6	4	4
G Boreham, AM	11	11	4	4	4	4	–	–	6	6	4	4
Sir M Daniell, KNZM	11	11	3	3	–	–	2	2	6	6	4	4
M del Prado[3]	5	5	–	–	–	–	–	–	2	2	1	1
A Denver	11	11	4	4	–	–	2	2	6	6	4	4
R Holliday-Smith[4]	2	2	1	1	1	1	–	–	2	2	–	–
D Howitt	11	11	–	–	–	–	2	2	–	–	4	4
A Hussain[5]	1	1	–	–	–	–	1	1	1	1	–	–
C McLoughlin, AM	11	11	4	4	4	4	–	–	6	6	3	3
Prof B Robinson, AC	11	11	–	–	4	4	2	2	6	6	4	3

[1] K Penrose was appointed to the Board on 1 July 2022 and did not attend meetings during the financial year.
[2] A Deans was appointed as Chair effective 21 August 2021.
[3] M del Prado was appointed to the Board on 1 January 2022.
[4] R Holliday-Smith retired from the Board on 20 August 2021.
[5] A Hussain retired from the Board on 20 July 2021.

Principal activities

Information on the principal activities, operations and financial position of Cochlear Limited and its business strategies and prospects is set out in the Operational review and Financial review on pages 54 to 59 of this Annual Report.

Dividends

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

	Dollars per share	Total amount $m	Franked	Date of payment
Dividends recognised in the current financial year by the Company are:				
Interim 2022 ordinary	1.55	102.0	0% Franked	21 April 2022
Final 2021 ordinary	1.40	92.0	0% Franked	18 October 2021
Total amount	**2.95**	**194.0**		
Since the end of the financial year, the directors declared the following dividend:				
Final 2022 ordinary	1.45	95.4	40% Franked	17 October 2022
Total amount	**1.45**	**95.4**		

The financial effect of the 2022 final dividend will be recognised in the subsequent financial year as it was declared after 30 June 2022.

Environmental regulations

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

Non-audit services

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

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

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

	Consolidated	
	2022	**2021**
	$	**$**
Audit services		
Audit and review of financial reports	2,068,476	2,030,461
Total audit services	**2,068,476**	**2,030,461**
Non-audit services		
Taxation compliance and advisory services	977,589	1,370,782
Other	68,824	52,942
Total non-audit services	**1,046,413**	**1,423,724**

State of affairs

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

Remuneration report

Information on Cochlear's remuneration framework and the outcomes for the financial year ended 30 June 2022 for the Cochlear Limited Board, the CEO & President and other key management personnel, and changes for the financial year ending 30 June 2023, is included in the Remuneration report on pages 70 to 89 of this Annual Report.

Indemnification of officers

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

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

Insurance premiums

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

Events subsequent to the reporting date

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

Dividends

For dividends declared after 30 June 2022, refer above.

Lead auditor’s independence declaration

The lead auditor’s independence declaration is set out on page 94 and forms part of the Directors’ report for the financial year ended 30 June 2022.

Rounding off

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

Dated at Sydney this 18th day of August 2022.

Signed in accordance with a resolution of the directors:

Director

Director

Auditor’s independence declaration

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

To: the directors of Cochlear Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2022 there have been:

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

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

KPMG

KPMG

Julian McPherson, Partner

Sydney, 18 August 2022

Income statement

	Note	2022 $m	2021 (Restated)[1] $m
Revenue	2.2	1,648.3	1,497.6
Cost of sales	2.3	(411.0)	(410.2)
Gross profit		**1,237.3**	**1,087.4**
Selling, marketing and general expenses		(498.7)	(444.1)
Research and development expenses		(210.7)	(195.0)
Administration expenses		(159.0)	(116.1)
Other income	2.4	31.1	86.5
Other expenses	2.3	–	(40.4)
Patent litigation expense	2.3	–	(6.4)
Share of losses on equity accounted investments	5.5	–	(1.7)
Results from operating activities		**400.0**	**370.2**
Finance income – interest		2.4	3.6
Finance expense – interest		(8.6)	(12.0)
Net finance expense		**(6.2)**	**(8.4)**
Profit before income tax		**393.8**	**361.8**
Income tax expense	3.1	(104.7)	(38.0)
Net profit		**289.1**	**323.8**
Basic earnings per share (cents)	2.5	439.6	492.6
Diluted earnings per share (cents)	2.5	439.6	492.6

[1] Comparative information throughout these financial statements has been restated for International Financial Reporting Standards Interpretation Committee (IFRIC) decision *Configuration or Customisation Costs in a Cloud Computing Arrangement.* Refer to Note 7.6 for further details.

The notes on pages 100 to 135 are an integral part of these consolidated financial statements.

Statement of comprehensive income

	2022 $m	2021 (Restated)[1] $m
Net profit	**289.1**	**323.8**
Other comprehensive income/(loss)		
Items that will not be reclassified subsequently to the income statement:		
Defined benefit plan actuarial gain/(loss)	5.1	(0.1)
Financial investments measured at fair value through other comprehensive income, net of tax	(83.8)	40.7
Total items that will not be reclassified subsequently to the income statement	**(78.7)**	**40.6**
Items that are or may be reclassified subsequently to the income statement:		
Foreign currency translation differences	(6.2)	(14.1)
Effective portion of changes in fair value of cash flow hedges, net of tax	(16.9)	11.2
Net change in fair value of cash flow hedges transferred to the income statement, net of tax	(5.0)	(3.0)
Total items that are or may be reclassified subsequently to the income statement	**(28.1)**	**(5.9)**
Total other comprehensive (loss)/income, net of tax	**(106.8)**	**34.7**
Total comprehensive income	**182.3**	**358.5**

[1] Comparative information throughout these financial statements has been restated for IFRIC decision *Configuration or Customisation Costs in a Cloud Computing Arrangement.* Refer to Note 7.6 for further details.

The notes on pages 100 to 135 are an integral part of these consolidated financial statements.

Balance sheet

	Note	2022 $m	2021 (Restated)[1] $m
Assets			
Cash and cash equivalents	2.7(a)	629.3	609.6
Trade and other receivables	6.4(b)	348.5	296.3
Forward exchange contracts		8.4	17.6
Inventories	5.1	270.2	216.1
Current tax assets	3.2	41.9	69.2
Prepayments		28.7	21.2
Total current assets		**1,327.0**	**1,230.0**
Forward exchange contracts		2.4	3.3
Property, plant and equipment	5.2	260.2	239.5
Intangible assets	5.3	392.5	385.5
Investments	5.5	119.1	199.5
Other financial assets	5.5	68.8	27.3
Deferred tax assets	3.2	116.1	152.0
Right of use asset	5.8	179.0	189.0
Total non-current assets		**1,138.1**	**1,196.1**
Total assets		**2,465.1**	**2,426.1**
Liabilities			
Trade and other payables		232.4	202.9
Forward exchange contracts		22.3	4.7
Loans and borrowings	6.3	42.6	–
Current tax liabilities	3.2	15.2	12.9
Employee benefit liabilities	4.2	101.6	87.9
Provisions	5.6	22.7	19.4
Deferred revenue		54.7	42.8
Lease liability	6.4(c)	36.1	31.9
Total current liabilities		**527.6**	**402.5**
Trade and other payables		0.3	0.7
Forward exchange contracts		6.5	3.2
Loans and borrowings	6.3	–	45.0
Employee benefit liabilities	4.2	6.4	12.1
Provisions	5.6	33.2	31.0
Deferred tax liabilities	3.2	22.4	50.6
Deferred revenue		7.8	4.0
Lease liability	6.4(c)	175.2	187.4
Total non-current liabilities		**251.8**	**334.0**
Total liabilities		**779.4**	**736.5**
Net assets		**1,685.7**	**1,689.6**
Equity			
Share capital		1,276.6	1,276.6
Reserves		(46.2)	57.9
Retained earnings		455.3	355.1
Total equity		**1,685.7**	**1,689.6**

[1] Comparative information throughout these financial statements has been restated for IFRIC decision *Configuration or Customisation Costs in a Cloud Computing Arrangement.* Refer to Note 7.6 for further details.

The notes on pages 100 to 135 are an integral part of these consolidated financial statements.

Statement of changes in equity

$m	Issued capital	Translation reserve	Hedging reserve	Fair value reserve	Share-based payment reserve	Retained earnings	Total equity
2021							
Balance at 1 July 2020 - Reported	1,272.4	(43.3)	0.9	(2.9)	58.0	116.4	1,401.5
Adjustment due to cloud computing arrangements[1]	–	–	–	–	–	(9.4)	(9.4)
Balance at 1 July 2020 - Restated	**1,272.4**	**(43.3)**	**0.9**	**(2.9)**	**58.0**	**107.0**	**1,392.1**
Total comprehensive income/(loss)							
Net profit	–	–	–	–	–	323.8	323.8
Other comprehensive income/(loss)							
Defined benefit plan actuarial loss	–	–	–	–	–	(0.1)	(0.1)
Financial investments measured at fair value through other comprehensive income, net of tax	–	–	–	40.7	–	–	40.7
Foreign currency translation differences	–	(14.1)	–	–	–	–	(14.1)
Effective portion of changes in fair value of cash flow hedges, net of tax	–	–	11.2	–	–	–	11.2
Net change in fair value of cash flow hedges transferred to the income statement, net of tax	–	–	(3.0)	–	–	–	(3.0)
Total other comprehensive income/(loss)	–	**(14.1)**	**8.2**	**40.7**	–	**(0.1)**	**34.7**
Total comprehensive income/(loss)	**–**	**(14.1)**	**8.2**	**40.7**	**–**	**323.7**	**358.5**
Transactions with owners, recorded directly in equity							
Share options exercised	4.2	–	–	–	(1.2)	–	3.0
Performance rights vested	–	–	–	–	(0.7)	–	(0.7)
Share-based payment transactions	–	–	–	–	8.1	–	8.1
Deferred tax recognised in equity	–	–	–	–	4.2	–	4.2
Dividends to shareholders	–	–	–	–	–	(75.6)	(75.6)
Balance at 30 June 2021 - Restated	**1,276.6**	**(57.4)**	**9.1**	**37.8**	**68.4**	**355.1**	**1,689.6**
2022							
Balance at 1 July 2021 - Reported	1,276.6	(57.4)	9.1	37.8	68.4	367.2	1,701.7
Adjustment due to cloud computing arrangements[1]	–	–	–	–	–	(12.1)	(12.1)
Balance at 1 July 2021 - Restated	**1,276.6**	**(57.4)**	**9.1**	**37.8**	**68.4**	**355.1**	**1,689.6**
Total comprehensive income/(loss)							
Net profit	–	–	–	–	–	289.1	289.1
Other comprehensive income/(loss)							
Defined benefit plan actuarial gain	–	–	–	–	–	5.1	5.1
Financial investments measured at fair value through other comprehensive income, net of tax	–	–	–	(83.8)	–	–	(83.8)
Foreign currency translation differences	–	(6.2)	–	–	–	–	(6.2)
Effective portion of changes in fair value of cash flow hedges, net of tax	–	–	(16.9)	–	–	–	(16.9)
Net change in fair value of cash flow hedges transferred to the income statement, net of tax	–	–	(5.0)	–	–	–	(5.0)
Total other comprehensive income/(loss)	–	**(6.2)**	**(21.9)**	**(83.8)**	–	**5.1**	**(106.8)**
Total comprehensive income/(loss)	**–**	**(6.2)**	**(21.9)**	**(83.8)**	**–**	**294.2**	**182.3**
Transactions with owners, recorded directly in equity							
Performance rights vested	–	–	–	–	(1.1)	–	(1.1)
Share-based payment transactions	–	–	–	–	10.8	–	10.8
Deferred tax recognised in equity	–	–	–	–	(1.9)	–	(1.9)
Dividends to shareholders	–	–	–	–	–	(194.0)	(194.0)
Balance at 30 June 2022	**1,276.6**	**(63.6)**	**(12.8)**	**(46.0)**	**76.2**	**455.3**	**1,685.7**

[1] Comparative information throughout these financial statements has been restated for IFRIC decision *Configuration or Customisation Costs in a Cloud Computing Arrangement.* Refer to Note 7.6 for further details.

The notes on pages 100 to 135 are an integral part of these consolidated financial statements.

Statement of cash flows

	Note	2022 $m	2021 (Restated)[1] $m
Cash flows from operating activities			
Cash receipts from customers		1,611.8	1,436.0
Cash paid to suppliers and employees		(1,215.0)	(1,156.1)
Grant and other income received	2.4	12.0	8.3
Government assistance in respect of COVID received	2.4	–	24.6
Government assistance in respect of COVID repaid	2.3	–	(24.6)
Interest received		2.4	3.6
Interest paid		(8.6)	(12.0)
Income taxes paid	3.1	(26.1)	(14.4)
Net cash provided by operating activities	2.7(b)	**376.5**	**265.4**
Cash flows from investing activities			
Acquisition of leasehold improvements, plant and equipment and land and buildings	5.2	(44.5)	(41.2)
Acquisition of intangible assets	5.3	(32.7)	(25.5)
Acquisition of investments and other financial assets	5.5	(61.7)	(18.4)
Proceeds from term deposits		–	365.0
Net cash (used in)/provided by investing activities		**(138.9)**	**279.9**
Cash flows from financing activities			
Repayments of borrowings		–	(403.1)
Proceeds from borrowings		–	1.7
Payments of lease liability principal		(25.6)	(20.5)
(Outlay)/proceeds from exercise of share options and performance rights		(1.1)	2.4
Dividends paid	2.6	(194.0)	(75.6)
Net cash used in financing activities		**(220.7)**	**(495.1)**
Net increase in cash and cash equivalents		**16.9**	**50.2**
Cash and cash equivalents, net of overdrafts at 1 July		609.6	565.0
Effect of exchange rate fluctuations on cash held		2.8	(5.6)
Cash and cash equivalents, net of overdrafts at 30 June		**629.3**	**609.6**

[1] Comparative information throughout these financial statements has been restated for IFRIC decision *Configuration or Customisation Costs in a Cloud Computing Arrangement.* Refer to Note 7.6 for further details.

The notes on pages 100 to 135 are an integral part of these consolidated financial statements.

Notes to the financial statements

1. Basis of preparation

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

1.1 Reporting entity

Cochlear Limited (the Company) is a company domiciled in Australia. The consolidated financial statements of the Company as at and for the year ended 30 June 2022 comprise the Company and its controlled entities (together referred to as Cochlear or the Consolidated Entity). Cochlear is a for-profit entity and operates in the implantable hearing device industry.

1.2 Basis of preparation

(a) Statement of compliance

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

The Board approved the consolidated financial statements on 18 August 2022.

(b) Basis of measurement

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

(c) Functional and presentation currency

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

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

(d) Foreign currency

Foreign currency transactions

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

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

Financial statements of foreign operations

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

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

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

(e) Use of judgements and estimates

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

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

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

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

Note 4.3 – Share-based payments – measurement of fair value using the Black-Scholes-Merton pricing model;

Note 5.3 – Intangible assets – key assumptions in impairment testing of intangible assets and goodwill;

Note 5.6 – Provisions – key assumptions about the likelihood and magnitude of an outflow of economic benefits in relation to the warranty and product recall provisions;

Note 5.7 – Contingent liabilities – key assumptions about the likelihood and magnitude of an outflow of economic benefits in relation to patent infringement claims;

Note 5.8 – Leases – lease terms and whether Cochlear is reasonably certain to exercise extension options; and

Note 6.4 – Financial risk management – measurement of expected credit loss allowance for trade receivables; measurement of the fair value of financial assets.

(f) Basis of consolidation

Controlled entities

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

Transactions eliminated on consolidation

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

Special purpose entities

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

(g) Goods and services tax (GST)

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

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

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

(h) Comparability

Comparative information is reclassified where appropriate to enhance comparability or to comply with new or revised accounting standards. Refer to Note 7.6 for further details.

2. Performance for the year

2.1 Operating segments

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

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

Information about reportable segments

	Americas		EMEA[1]		Asia Pacific		Total	
	2022	**2021**	**2022**	**2021**	**2022**	**2021**	**2022**	**2021**
	$m	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**
Reportable segment revenue	779.7	724.8	578.5	517.7	282.9	250.8	**1,641.1**	**1,493.3**
Reportable segment EBIT	414.4	383.8	274.4	227.6	92.0	74.2	**780.8**	**685.6**
Reportable segment assets	350.8	301.9	281.2	275.8	228.9	138.1	**860.9**	**715.8**
Reportable segment liabilities	172.7	151.8	93.3	91.9	57.0	42.9	**323.0**	**286.6**
Other material items								
Depreciation and amortisation	11.2	11.2	6.8	6.5	5.8	5.4	**23.8**	**23.1**
Write-down in value of inventories	0.7	0.8	1.1	1.8	0.3	0.7	**2.1**	**3.3**
Acquisition of non-current assets	2.3	0.9	2.4	2.9	3.9	0.9	**8.6**	**4.7**

[1] Europe, Middle East and Africa.

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

Revenues	**Cochlear implants**	**Services (sound processor upgrades and other)**	**Total cochlear implants**	**Acoustics**	**Reportable segment revenue**	**Foreign exchange gain on hedged sales**	**Consolidated revenue**
	$m	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**
2022	935.2	503.9	**1,439.1**	202.0	**1,641.1**	7.2	**1,648.3**
2021	898.6	438.5	**1,337.1**	156.2	**1,493.3**	4.3	**1,497.6**

Profit or loss	Reportable segment EBIT $m	Corporate and other net expenses $m	Foreign exchange gain on hedged sales $m	Net finance expense $m	Consolidated profit before income tax $m
2022	780.8	(388.0)	7.2	(6.2)	**393.8**
2021 (Restated)[1]	685.6	(319.7)	4.3	(8.4)	**361.8**

Assets and liabilities	Reportable segment assets $m	Corporate and manufacturing assets $m	Consolidated total assets $m	Reportable segment liabilities $m	Corporate and manufacturing liabilities $m	Consolidated total liabilities $m
2022	860.9	1,604.2	**2,465.1**	323.0	456.4	**779.4**
2021 (Restated)[1]	715.8	1,710.3	**2,426.1**	286.6	449.9	**736.5**

Other material items	Reportable segment total		Corporate and manufacturing total		Consolidated total	
	2022 $m	2021 $m	2022 $m	2021 (Restated)[1] $m	2022 $m	2021 (Restated)[1] $m
Depreciation and amortisation	23.8	23.1	49.2	53.3	**73.0**	**76.4**
Write-down in value of inventories	2.1	3.3	11.0	8.2	**13.1**	**11.5**
Acquisition of non-current assets	8.6	4.7	130.3	68.4	**138.9**	**73.1**
Patent litigation expense	–	–	–	6.4	**–**	**6.4**
Equity accounted losses	–	–	–	1.7	**–**	**1.7**

[1] Comparative information has been restated for IFRIC decision on cloud computing costs. Refer to Note 7.6 for details.

2.2 Revenue

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

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

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

	2022 $m	2021 $m
Sale of goods before hedging	1,608.5	1,462.7
Foreign exchange gain on hedged sales	7.2	4.3
Revenue from sale of goods	**1,615.7**	**1,467.0**
Rendering of services	32.6	30.6
Total revenue	**1,648.3**	**1,497.6**

2.3 Expenses

	2022 $m	2021 $m
(a) Cost of sales		
Carrying amount of inventories recognised as an expense	392.8	391.4
Write-down in value of inventories	13.1	11.5
Other	5.1	7.3
Total cost of sales	**411.0**	**410.2**
(b) Other expenses		
Repayment of government assistance in respect of COVID[1]	–	24.6
Net foreign exchange loss	–	15.8
Total other expenses	**–**	**40.4**
(c) Patent litigation expense		
Withholding tax expense	–	29.6
Foreign exchange gain	–	(23.2)
Total patent litigation expense	**–**	**6.4**

[1] Voluntary repayment of government assistance. Refer to Note 2.4 for further details.

Patent litigation expense

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

In the prior year, $29.6 million was recognised for withholding tax payable on the settlement amounts paid to AMF and AB following receipt of a private ruling from the Australian Taxation Office (ATO) in December 2020. The foreign exchange gain of $23.2 million represented the revaluation of Balance sheet items related to the patent litigation. This included the United States Dollar (USD) 268 million loan facility for patent litigation at 30 June 2020 which has since been fully repaid. As this matter has now been resolved, there are no provisions remaining in relation to this dispute.

2.4 Other income

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

	2022 $m	2021 $m
Grant received or due and receivable	2.7	2.1
Release of contingent consideration	1.7	1.6
Government assistance in respect of COVID[1]	–	24.6
Fair value change in investments measured at fair value through profit or loss	17.3	52.0
Net foreign exchange gain	0.1	–
Other income	9.3	6.2
Total other income	**31.1**	**86.5**

[1] Government assistance received in the financial year ended 30 June 2021 was voluntarily repaid towards the end of the prior period as trading conditions improved. As the payment is voluntary, the repayment has been included as an expense in Note 2.3(b).

Changes to the contingent consideration value recognised for the Sycle, LLC business acquisition were considered at 30 June 2022. Based on performance hurdles expected to be met, $1.7 million (2021: $1.6 million) has been released to the Income statement and $0.4 million remains as contingent consideration (2021: $3.0 million).

2.5 Earnings per share

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

Basic earnings per share

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

	2022	2021 (Restated)[1]
Net profit attributable to equity holders of the parent entity	$289,104,000	$323,800,000
Weighted average number of ordinary shares (basic):		
Issued ordinary shares at 1 July (number)	65,744,078	65,687,402
Effect of options, performance shares and performance rights exercised (number)	26,291	45,869
Effect of shares issued under Employee Share Plan (number)	70	–
Weighted average number of ordinary shares (basic) at 30 June	**65,770,439**	**65,733,271**
Basic earnings per share (cents)	**439.6**	**492.6**

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:

	2022	2021 (Restated)[1]
Net profit attributable to equity holders of the parent entity	$289,104,000	$323,800,000
Weighted average number of ordinary shares (diluted):		
Weighted average number of shares (basic) (number)	65,770,439	65,733,271
Effect of options, performance shares and performance rights unvested (number)	207	1,071
Weighted average number of ordinary shares (diluted) at 30 June	**65,770,646**	**65,734,342**
Diluted earnings per share (cents)	**439.6**	**492.6**

[1] Comparative information has been restated for IFRIC decision on cloud computing costs. Refer to Note 7.6 for details.

2.6 Dividends

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

	Dollars per share	Total amount $m	Franked	Date of payment
Dividends recognised in the current financial year by the Company are:				
2022				
Interim 2022 ordinary	1.55	102.0	0% Franked	21 April 2022
Final 2021 ordinary	1.40	92.0	0% Franked	18 October 2021
Total amount	**2.95**	**194.0**		
2021				
Interim 2021 ordinary	1.15	75.6	0% Franked	20 April 2021
Total amount	**1.15**	**75.6**		

	Dollars per share	Total amount $m	Franked	Date of payment
Subsequent event				
Since the end of the financial year, the directors declared the following dividend:				
Final 2022 ordinary	1.45	95.4	40% Franked	17 October 2022
Total amount	**1.45**	**95.4**		

The financial effect of the 2022 final dividend will be recognised in the subsequent financial year as it was declared after 30 June 2022.

Dividend franking account

	2022	2021
	$m	$m
Total franking account balance at 30%	**–**	**–**

The above amount represents the balance of the franking account as at 30 June, after taking into account adjustments for:

- franking credits that will arise from the payment of income tax payable for the current year;
- franking credits that will arise from the receipt of dividends recognised as receivables at the year end; and
- franking credits that the Company may be prevented from distributing in subsequent financial years.

It is expected that future income tax payments made during 2022/23 will generate franking credits that could be distributed to shareholders.

The ability to utilise the franking account credits is dependent upon the ability to declare dividends.

2.7 Notes to the statement of cash flows

(a) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with an original maturity of three months or less. Bank overdrafts that are repayable on demand and form an integral part of Cochlear's cash management are included as a component of cash and cash equivalents for the purpose of the Statement of cash flows. The operating cash account received an average interest rate of 0.39% (2021: 0.58%) per annum.

(b) Reconciliation of net profit to net cash provided by operating activities

	2022	2021 (Restated)[1]
	$m	$m
Net profit	289.1	323.8
Add item classified as investing activities:		
Loss on disposal of property, plant and equipment	0.6	0.2
Add/(less) non-cash items:		
Depreciation and amortisation	73.0	76.4
Release of contingent consideration	(1.7)	(1.6)
Fair value change in investments measured at fair value through profit or loss	(17.3)	(52.0)
Equity settled share-based payment transactions	10.8	8.1
Share of losses on equity accounted investments	–	1.7
Net cash provided by operating activities before changes in assets and liabilities	**354.5**	**356.6**
Changes in assets and liabilities:		
Change in trade and other receivables	(52.2)	(60.8)
Change in inventories	(54.1)	7.7
Change in prepayments	(7.5)	(3.6)
Change in deferred tax assets/liabilities	45.0	35.6
Change in trade and other payables	29.1	31.8
Change in current tax assets/liabilities	29.6	5.9
Change in employee benefit liabilities	8.0	33.2
Change in provisions	5.5	(107.0)
Change in deferred revenue	15.7	(2.5)
Effect of movements in foreign exchange	2.9	(31.5)
Net cash provided by operating activities	**376.5**	**265.4**

[1] Comparative information has been restated for IFRIC decision on cloud computing costs. Refer to Note 7.6 for details.

3. Income taxes

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

3.1 Income tax expense

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

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

Income tax expense recognised in the Income statement

	2022 $m	2021 (Restated)[1] $m
Current income tax expense		
Current year	50.4	84.6
Adjustment for prior years	6.7	(61.3)
Total current income tax expense	**57.1**	**23.3**
Deferred income tax expense		
Origination and reversal of temporary differences	(14.3)	48.2
Net utilisation/(recognition) of tax losses	61.2	(34.4)
Current year deferred income tax expense	**46.9**	**13.8**
Adjustment for prior years	0.7	0.9
Total deferred income tax expense	**47.6**	**14.7**
Total income tax expense recognised in the Income statement	**104.7**	**38.0**

[1] Comparative information has been restated for IFRIC decision on cloud computing costs. Refer to Note 7.6 for details.

Consolidated Entity – Numerical reconciliation between profit before income tax and income tax expense

	2022 $m	2021 (Restated)[1] $m
Profit before income tax	**393.8**	**361.8**
Tax at the Australian tax rate of 30% (2021: 30%)	118.1	108.5
(Less)/add adjustments for:		
Research and development allowances	(16.5)	(10.1)
Net non-deductible/(non-assessable) items	0.3	3.2
Effect of tax rates in foreign jurisdictions	(4.6)	(3.2)
	97.3	**98.4**
Patent litigation adjustment for prior year[2]	–	(63.5)
Other adjustment for prior years	7.4	3.1
Income tax expense on profit before income tax	**104.7**	**38.0**

[1] Comparative information has been restated for IFRIC decision on cloud computing costs. Refer to Note 7.6 for details.
[2] Cochlear Limited prior year adjustment relating to patent litigation following the receipt of a private ruling from the ATO in December 2020.

Income tax recognised in Statement of changes in equity

	Note	2022 $m	2021 $m
Income tax on:			
Fair value (losses)/gains on investments	3.2	(34.1)	17.4
Cash flow hedges	3.2	(9.4)	3.5
Share-based payments		1.9	(4.2)
Total income tax recognised in Statement of changes in equity		**(41.6)**	**16.7**

Consolidated Entity – Numerical reconciliation between income tax expense and cash taxes paid

	2022 $m	2021 (Restated)[1] $m
Income tax expense on profit before income tax	104.7	38.0
Timing differences recognised in deferred tax	14.3	(48.2)
Net (utilisation)/benefit of tax losses recognised in deferred tax	(61.2)	34.4
Current year tax instalments receivable next year	21.1	43.3
Prior year tax instalments received this year	(52.8)	(53.1)
Cash taxes paid per statement of cash flows	**26.1**	**14.4**

[1] Comparative information has been restated for IFRIC decision on cloud computing costs. Refer to Note 7.6 for details.

Cochlear Limited's Australian tax consolidated group – Numerical reconciliation between profit before income tax and income tax expense

	2022 $m	2021 (Restated)[1] $m
Profit before income tax (excluding dividends from wholly-owned foreign subsidiaries)	336.9	253.7
Add: Dividends from wholly-owned foreign subsidiaries	95.5	45.8
Profit before income tax	**432.4**	**299.5**
Tax at the Australian tax rate of 30% (2021: 30%)	129.7	89.8
(Less)/add adjustments for:		
Research and development allowances	(15.8)	(8.5)
Net non-deductible items	2.8	4.4
Controlled foreign company income	2.3	2.8
Exempt foreign sourced dividends from wholly-owned subsidiaries	(28.7)	(13.7)
	90.3	**74.8**
Patent litigation prior year adjustment[2]	–	(63.5)
Adjustment for prior years	0.7	5.1
Income tax expense on profit before income tax	**91.0**	**16.4**

[1] Comparative information has been restated for IFRIC decision on cloud computing costs. Refer to Note 7.6 for details.
[2] Cochlear Limited prior year adjustment relating to patent litigation following the receipt of a private ruling from the ATO in December 2020.

3.2 Current and deferred tax assets and liabilities

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

The measurement of deferred tax mirrors the tax consequences that the Consolidated Entity expects to recover or settle from the carrying amount of its assets and liabilities. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse.

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

Recognised deferred tax assets and liabilities

	2022 $m	2021 (Restated)[1] $m
Deferred tax assets	116.1	152.0
Deferred tax liabilities	(22.4)	(50.6)
Deferred tax assets	**93.7**	**101.4**

Reconciliation of deferred tax assets and liabilities

	Opening balance (Restated)[1]	Recognised in the Income statement	Recognised in other comprehensive income	Recognised in equity	Closing balance
Property, plant and equipment	0.7	0.8	–	–	1.5
Intangible assets	3.6	3.6	–	–	7.2
Inventories	39.0	14.6	–	–	53.6
Provisions	28.8	4.6	–	–	33.4
Deferred revenue	4.8	0.6	–	–	5.4
Forward exchange contracts	(3.9)	–	9.4	–	5.5
Tax losses and offsets carried forward	61.2	(61.2)	–	–	–
Other	(32.8)	(9.9)	34.1	(4.3)	(12.9)
Deferred tax assets/(liabilities)	**101.4**	**(46.9)**	**43.5**	**(4.3)**	**93.7**

[1] Comparative information has been restated for IFRIC decision on cloud computing costs. Refer to Note 7.6 for details.

Unrecognised deferred tax liabilities

At 30 June 2022, a deferred tax liability of $49.4 million (2021: $48.1 million) relating to investments in subsidiaries has not been recognised because the Company controls whether the asset will be recovered or the liability will be incurred and it is satisfied that it will not be incurred in the foreseeable future.

Carried forward tax losses

	2022 $m	2021 $m
Total tax losses brought forward	**61.2**	**26.8**
Total losses recognised	–	63.9
Total losses utilised against current taxable income	(61.2)	(29.5)
Total losses carried forward to be utilised in future years	**–**	**61.2**

Current tax assets and liabilities

The current tax assets for the Consolidated Entity of $41.9 million (2021: $69.2 million) represent the amount of income taxes recoverable in respect of current and prior years and arise from the payment of tax in excess of the amounts due to the relevant taxation authority. The current tax liabilities for the Consolidated Entity of $15.2 million (2021: $12.9 million) represent the amount of income taxes payable in respect of current and prior financial years.

4. Employee benefits

4.1 Employee expenses

	2022 $m	2021 $m
Wages and salaries	463.6	410.6
Contributions to superannuation plans	37.4	30.5
Increase/(decrease) in leave liabilities	5.0	(0.4)
Equity settled share-based payment transactions	10.8	8.1
Total employee expenses	**516.8**	**448.8**

4.2 Employee benefit liabilities

Wages, salaries and annual leave

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

Long service leave

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

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

Defined benefit plans

The Consolidated Entity has defined benefit plans that cover, in aggregate, 84 employees in two countries (2021: 84 employees). Cochlear contributed cash of $1.5 million (2021: $1.4 million) to defined benefit plans in the year ended 30 June 2022 and expects to contribute $1.7 million in the year ending 30 June 2023.

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

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

	2022 $m	2021 $m
Current		
Provision for long service leave	14.7	13.5
Provision for annual leave	40.1	36.6
Provision for short-term incentives and sales commissions	46.8	37.8
Total current employee benefit liabilities	**101.6**	**87.9**
Non-current		
Provision for long service leave	6.3	6.1
Defined benefit plan	0.1	6.0
Total non-current employee benefit liabilities	**6.4**	**12.1**
Total employee benefit liabilities	**108.0**	**100.0**

4.3 Share-based payments

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

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

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

When the Company grants options over its shares to employees of controlled entities, the fair value at grant date is recognised as an increase in the investment in subsidiaries, with a corresponding increase in equity over the vesting period of the grant in the Company’s accounts. At 30 June 2022, the unissued ordinary shares of the Company under option and rights and the terms and conditions of the grants and issues are as follows:

Grant date	Exercise price of options	Number of options	Number of performance rights	Contractual life
October 2019[1,2]	$217.28	24,231	3,994	4 years
October 2019[1,2]	$217.28	51,802	9,546	5 years
September 2020[3]	N/A	–	4,665	2 years
October 2020[1,2]	$206.06	54,731	12,332	5 years
September 2021[4]	N/A	–	38,900	2 years
October 2021[1,2]	$232.52	73,515	18,001	5 years
October 2021[3]	N/A	–	3,281	2 years
Total		**204,279**	**90,719**	

[1] Options and performance rights offered under long-term incentives.

[2] From FY20, LTI award is subject to a four-year performance period and as a transition for the FY20 LTI plan, two grants were offered including three-year and four-year performance period. No transitional arrangements were provided to the CEO&P. The CEO&P’s FY20 LTI grant had a four-year performance period only.

[3] Services rights offered under the CEIP.

[4] Performance rights offered under deferred short-term incentives.

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

Under the CEIP, certain employees receive a portion of their STI achievement in the form of performance rights. The number of performance rights under the deferred STI grants is calculated at the end of each year and then held for two years until vesting.

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

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

The grant date fair value of options and performance rights was measured based on the Black-Scholes-Merton pricing model. Gross contract value discounts for dividends not paid, share price volatility and the risk free rate of return. There is no discount for the likelihood of service or performance conditions. The model uses Cochlear's five-day volume-weighted average price following the announcement of full year results in August each year. The inputs used in the measurement of the fair values at the grant date are the following:

	20 October 2021 (4 years)		30 September 2021		21 October 2020 (4 years)		18 September 2020
	TSR-based conditions	**EPS performance-based conditions**	**Deferred STI service-based conditions**	**Rights service-based conditions**	**TSR-based conditions**	**EPS performance-based conditions**	**Rights service-based conditions**
Fair value of options at grant date	$45.46	$54.45	N/A	N/A	$38.88	$42.56	N/A
Fair value of performance rights at grant date	$125.69	$222.32	$224.60	$224.60	$124.47	$188.83	$195.20
Share price at valuation date	$226.85	$226.85	$226.85	$226.85	$201.75	$201.75	$201.75
Option exercise price	$232.52	$232.52	N/A	N/A	$206.06	$206.06	N/A
Expected volatility[1]	30.87%	30.87%	38.06%	38.06%	30.77%	30.77%	39.13%
Option/right life (years)	4 - 5	4 - 5	2	2	4 - 5	4 - 5	2
Expected dividend	0.51%	0.51%	0.51%	0.51%	1.66%	1.66%	1.66%
Risk free interest rate[2]	0.30%	0.30%	0.30%	0.30%	0.30%	0.30%	0.30%

[1] Measure captures the characteristics of fluctuations in the share price.

[2] Based on government bonds.

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

	Weighted average exercise price 2022	**Number of options 2022**	**Weighted average exercise price 2021**	**Number of options 2021**
Outstanding at 1 July	**$209.03**	**208,331**	**$188.12**	**261,426**
Forfeited	$205.88	(70,634)	$159.34	(60,401)
Exercised	$202.84	(13,658)	$154.73	(48,423)
Granted	$232.52	80,240	$206.06	55,729
Outstanding at 30 June	**$219.76**	**204,279**	**$209.03**	**208,331**
Exercisable at 30 June	$217.28	24,231	$202.84	75,745

13,658 options were exercised in 2022 (2021: 48,423 options were exercised). The weighted average market share price on the ASX at date of exercise was $237.25 (2021: $207.72). The weighted average remaining contractual life of options outstanding at the end of the year is three years (2021: two years).

ShareWave Employee Share Plan

In 2021, Cochlear launched ShareWave, replacing all existing employee share purchase plans. Under the plan, eligible employees can become a Cochlear Limited shareholder by purchasing shares at the current market value through after-tax salary deductions, with Cochlear Limited providing a matching benefit at no extra cost to the employees at the end of the contribution period, subject to vesting conditions. A maximum value of $1,000 or $1,500 applies to ShareWave, depending on the eligibility of the participating employee.

APAC Employee Equity Plan

The APAC Employee Equity Plan, established in 2016, provided approximately $1,000 of service rights annually per eligible employee in selected Asian countries. Service rights were subject to a three-year service condition. Upon vesting, each service right converted to one share. For the year ended 30 June 2022, the Company issued nil shares under the plan (2021: 1,068 shares). The plan ceased in effect following the launch of ShareWave.

4.4 Key management personnel

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

Non-Executive directors

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

Executive KMP

D Howitt, L Aubert[4], A Bishop, R Brook, J Janssen and S Sayers.

Former Executive KMP

T Manna[5].

[1] Appointed on 1 January 2022.
[2] Retired on 20 August 2021.
[3] Retired on 20 July 2021.
[4] Commenced as a KMP on 1 April 2022.
[5] Ceased as a KMP on 31 March 2022.

Key management personnel disclosures

The KMP compensation is included in employee expenses as follows:

	Short-term employee benefits $	Post-employment benefits $	Other long-term benefits $	Share-based payments $	End of service payment $	Total $
2022	12,387,271	432,680	82,478	4,009,601	298,694	**17,210,724**
2021	12,008,815	415,634	(6,123)	2,794,219	327,132	**15,539,677**

Information regarding individual KMP remuneration and some equity instruments disclosures as permitted by section 300A of the *Corporations Act* (Cth) *2001* is provided in the Remuneration report of this Annual Report on pages 70 to 89.

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

5. Operating assets and liabilities

5.1 Inventories

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

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

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

	Raw materials $m	Work in progress $m	Finished goods $m	Total inventories $m
2022	99.9	25.2	145.1	**270.2**
2021	87.4	32.9	95.8	**216.1**

5.2 Property, plant and equipment

Owned assets

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

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

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

Depreciation

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

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

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

	Leasehold improvements		Plant and equipment		Land and buildings		Total	
	2022 $m	2021 $m	2022 $m	2021 $m	2022 $m	2021 $m	2022 $m	2021 $m
At cost	70.9	66.1	347.4	308.3	75.5	73.1	**493.8**	**447.5**
Accumulated depreciation	(38.3)	(32.1)	(192.7)	(174.8)	(2.6)	(1.1)	**(233.6)**	**(208.0)**
Net book value	**32.6**	**34.0**	**154.7**	**133.5**	**72.9**	**72.0**	**260.2**	**239.5**
Reconciliations of the carrying amounts are:								
Opening balance	34.0	38.9	133.5	124.5	72.0	67.1	**239.5**	**230.5**
Additions	3.4	2.5	41.1	33.9	–	4.8	**44.5**	**41.2**
Disposals	–	–	(0.6)	(0.2)	–	–	**(0.6)**	**(0.2)**
Depreciation	(6.2)	(5.4)	(22.5)	(23.2)	(1.1)	(0.8)	**(29.8)**	**(29.4)**
Effect of movements in foreign exchange	1.4	(2.0)	3.2	(1.5)	2.0	0.9	**6.6**	**(2.6)**
Net book value	**32.6**	**34.0**	**154.7**	**133.5**	**72.9**	**72.0**	**260.2**	**239.5**

5.3 Intangible assets

Goodwill

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

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

IT system costs

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

Other intangible assets

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

Amortisation

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

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

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

	Intangible assets with indefinite useful life	Intangible assets with finite useful life			Intangible assets
	Goodwill	IT system costs (Restated)[1]	Acquired technology, patents and licences	Other intangible assets	Total
	$m	$m	$m	$m	$m
2022					
At cost	257.1	113.5	163.5	50.5	**584.6**
Accumulated amortisation and impairment losses	–	(80.5)	(84.3)	(27.3)	**(192.1)**
Net book value	**257.1**	**33.0**	**79.2**	**23.2**	**392.5**
Reconciliations of the carrying amounts are:					
Opening balance	267.3	37.1	58.5	22.6	**385.5**
Additions	–	5.2	24.1	3.4	**32.7**
Amortisation	–	(8.5)	(3.0)	(3.8)	**(15.3)**
Effect of movements in foreign exchange	(10.2)	(0.8)	(0.4)	1.0	**(10.4)**
Net book value	**257.1**	**33.0**	**79.2**	**23.2**	**392.5**
2021					
At cost	267.3	109.5	140.3	52.7	**569.8**
Accumulated amortisation and impairment losses	–	(72.4)	(81.8)	(30.1)	**(184.3)**
Net book value	**267.3**	**37.1**	**58.5**	**22.6**	**385.5**
Reconciliations of the carrying amounts are:					
Opening balance	270.9	44.7	53.6	27.7	**396.9**
Additions	–	–	13.0	0.5	**13.5**
Amortisation	–	(7.6)	(8.1)	(3.8)	**(19.5)**
Effect of movements in foreign exchange	(3.6)	–	–	(1.8)	**(5.4)**
Net book value	**267.3**	**37.1**	**58.5**	**22.6**	**385.5**

[1] Comparative information has been restated for IFRIC decision on cloud computing costs. Refer to Note 7.6 for details.

Impairment

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

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

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

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

Impairment tests for CGUs

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

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

	Americas $m	EMEA $m	Asia Pacific $m	Total $m
2022	178.1	69.5	9.5	**257.1**
2021	183.4	73.9	10.0	**267.3**

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

Cash flows for year six onwards are extrapolated using a terminal growth rate of 3.0% (2021: 3.0%) per annum which is consistent with long-term growth rates. The pre-tax discount rate for each CGU is as follows: Americas 7.0% (2021: 6.8%), EMEA 7.1% (2021: 6.9%) and Asia Pacific 7.5% (2021: 7.4%).

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

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

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

5.4 Business combinations

On 27 April 2022, Cochlear announced an agreement had been reached to acquire Oticon Medical for DKK850 million (approximately AUD170 million) from Demant. The acquisition is expected to close in the second half of calendar year 2022, subject to competition approvals in jurisdictions where the transaction meets relevant notification thresholds. Should the acquisition proceed, it will be funded through existing cash balances.

5.5 Investments, equity-accounted investments and other financial assets

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

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

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

	Investments $m	Other financial assets $m
Balance at 1 July 2021	199.5	27.3
Additions	40.8	20.9
Fair value (loss)/gain in investments measured at fair value through profit or loss	(3.3)	20.6
Fair value loss through other comprehensive income (before tax)	(117.9)	–
Balance at 30 June 2022	**119.1**	**68.8**

At 30 June 2022, $88.2 million (2021: $50.0 million) of Investments and Other financial assets are measured at fair value through profit or loss and designated as Level 3 financial assets (refer to Note 6.4(d)). The remaining $99.7 million (2021: $176.8 million) are measured at fair value through other comprehensive income, with $68.5 million (2021: $160.4 million) designated as Level 1 and $31.2 million (2021: $16.4 million) designated as Level 3.

A pre-tax fair value loss of ($121.8 million) was recorded in other comprehensive income in relation to Level 1 assets, with net gains of $17.3 million and $3.9 million recorded in the Income statement and other comprehensive income respectively in relation to Level 3 assets.

Investment in Nyxoah S.A. (Nyxoah)

In July 2021, Cochlear invested an additional $29.9 million in Nyxoah through its US initial public offering which saw Nyxoah achieve a secondary listing on the Nasdaq exchange. At 30 June 2022, the total fair value of this investment is $68.2 million (2021: $158.8 million) based on the listed share price, resulting in a loss of $120.5 million before tax recognised through other comprehensive income.

5.6 Provisions

A provision is recognised in the Balance sheet when:

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

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

2022	Warranties $m	Legal and insurance $m	Product recall $m	Make good lease costs $m	Total $m
Opening balance	34.3	5.0	8.0	3.1	**50.4**
Provision made	14.0	4.4	–	1.0	**19.4**
Provision used	(11.4)	(2.4)	(0.6)	–	**(14.4)**
Effect of movements in foreign exchange	0.6	–	–	(0.1)	**0.5**
Total provisions	**37.5**	**7.0**	**7.4**	**4.0**	**55.9**
Represented by:					
Current	14.8	6.7	1.2	–	**22.7**
Non-current	22.7	0.3	6.2	4.0	**33.2**
Total provisions	**37.5**	**7.0**	**7.4**	**4.0**	**55.9**

Warranties

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

Legal and insurance

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

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

Product recall

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

No additional provisions have been made or released to the Income statement for the year ended 30 June 2022.

Make good lease costs

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

5.7 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 claims

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

Patent infringement claims – University of Pittsburgh

In September 2021, the University of Pittsburgh (the "University") filed a complaint for patent infringement against Cochlear in the United States District Court for the Western District of Texas, Waco division. The asserted patent is US Patent No. 8,421,274, which is related to a wireless energy transfer system. It was filed at the US Patent Office in 2009 and will expire in 2030. The complaint initially alleged that Cochlear's Nucleus 6 and Nucleus 7 cochlear implant systems infringe and names Cochlear Limited and USA subsidiaries Cochlear Americas Corporation and Cochlear Clinical Services, LLC as defendants.

In December 2021, the Cochlear defendants filed their answer and counterclaims denying the University's complaint. In February 2022, the University amended its infringement claims, focusing its case on the headpiece coils of the Nucleus 5, Nucleus 6, and Nucleus 7 sound processors. The implanted components (i.e., the CI612 implant) are no longer accused of infringement in this case.

The directors maintain the view that the University's patent is invalidated by Cochlear's own prior art patents and products. Cochlear's defences in this suit include non-infringement and invalidity based upon Cochlear's prior art patents (US Patent Nos. 7,260,435 and 7,623,827), which were filed and published well before the filing date of the University's patent. Cochlear's invalidity defences also rely upon its legacy products (ESPrit 3G and Freedom sound processors), which practised these prior art patents well before the filing date of the University's asserted patent.

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. Individual significant confidential investigation(s) by an authority are not disclosed, as disclosure may prejudice Cochlear.

5.8 Leases

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

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

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

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

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

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

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

The right of use asset depreciation is recognised in cost of sales, selling, marketing and general expenses, research and development expenses and administration expenses in the Income statement depending on the function of associated activities; while interest expense incurred on the lease liability is recognised in finance expense – interest in the Income statement. For the year ended 30 June 2022, lease interest was $6.6 million (2021: $6.6 million). For the purpose of presentation of the Statement of cash flows, the lease payments are separated into principal payments (financing activities) and interest payments (operating activities). Total cash outflows related to leases was $32.2 million for the year ended 30 June 2022 (2021: $27.1 million).

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

	Land and buildings $m	Other assets $m	Total $m
Balance at 1 July 2021	177.8	11.2	**189.0**
Additions	8.0	2.5	**10.5**
Remeasurement	4.7	(0.1)	**4.6**
Depreciation expense	(23.8)	(4.1)	**(27.9)**
Effect of movements in foreign exchange	2.9	(0.1)	**2.8**
Balance at 30 June 2022	**169.6**	**9.4**	**179.0**

6. Capital and financial structure

6.1 Capital management

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

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

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

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

In order to maintain or adjust the capital structure, Cochlear may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Neither the Company nor any of its subsidiaries is subject to externally imposed capital requirements. There were no significant changes in Cochlear's approach to capital management during the year.

6.2 Capital and reserves

Share capital

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

	Total number of issued shares	
	2022	**2021**
On issue 1 July – fully paid	**65,744,078**	**65,687,402**
Issued under Employee Share Plan	236	–
Issued from exercise of APAC Equity Plan	1,075	1,068
Issued from the exercise of options	–	26,689
Issued from the exercise of performance rights	29,950	28,919
On issue 30 June – fully paid	**65,775,339**	**65,744,078**

During the 2022 financial year, Cochlear purchased 16,766 shares (2021: 24,990 shares) on-market to satisfy exercise of options and performance rights and issued 236 shares to employees under the Employee Share Plan (2021: 0 shares).

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

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

Translation reserve

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

Hedging reserve

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

Fair value reserve

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

Share-based payment reserve

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

6.3 Total borrowings, net cash and finance costs

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

Debt establishment costs are capitalised and an amount of $1.0 million (2021: $0.7 million) in relation to unamortised loan establishment fees has been recognised in prepayments. They are recorded initially at cost and are amortised over the period of the loan.

	2022 $m	2021 $m
Cash		
Cash and cash equivalents	629.3	609.6
Total cash	**629.3**	**609.6**
Less: Total borrowings		
Current	(42.6)	–
Non-current	–	(45.0)
Total borrowings	**(42.6)**	**(45.0)**
Net cash	**586.7**	**564.6**

Gearing ratio

	2022 $m	2021 (Restated)[1] $m
Total borrowings	42.6	45.0
Total equity	1,685.7	1,689.6
Gearing ratio[2]	**2.5%**	**2.7%**

[1] Comparative information has been restated for IFRIC decision on cloud computing costs. Refer to Note 7.6 for details.

[2] Gearing ratio = Total borrowings/Total equity.

Financing arrangements

	Multi-option bank facilities		Other credit facilities		
	Unsecured bank loan	Bank guarantees[2]	Unsecured bank overdrafts	Unsecured bank loan	Bank guarantees[2]
	$m	$m	$m	$m	$m
2022					
Utilised at reporting date[1]	42.6	6.0	–	–	6.4
Not utilised at reporting date	300.0	9.0	2.9	4.8	2.9
Total facilities	**342.6**	**15.0**	**2.9**	**4.8**	**9.3**
2021					
Utilised at reporting date[1]	45.7	5.5	–	–	6.2
Not utilised at reporting date	300.0	9.5	2.7	5.4	3.4
Total facilities	**345.7**	**15.0**	**2.7**	**5.4**	**9.6**

[1] Excludes the amount of $1.0 million (2021: $0.7 million) in relation to unamortised loan establishment fees.

[2] Bank guarantees include standby letters of credit.

Multi-option bank facilities – Unsecured bank loan

During the year ended 30 June 2022, Cochlear restructured its bank loan facilities as follows:

Facility type	<1 year term $m	1 - 2 year term $m	2 - 3 year term $m	3 - 4 year term $m	4 - 5 year term $m	5 - 6 year term $m	Total facilities $m
Committed debt including guarantees	42.6	115.0	–	–	100.0	100.0	**357.6**

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

Other credit facilities

Unsecured bank overdrafts

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

Unsecured bank loan

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

Bank guarantees/Standby letters of credit

As at 30 June 2022, Cochlear had additional contingent liability facilities denominated in USD, Euros (EUR), Sterling (GBP), Indian rupees and New Zealand dollars totalling AUD 9.3 million (2021: AUD 9.6 million).

Finance costs

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

6.4 Financial risk management

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

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

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

(a) Market risk

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

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

Currency risk

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

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

Cochlear's exposure to foreign currency risk in relation to non-derivative financial instruments at 30 June 2022 was as follows, based upon notional amounts:

Amounts local currency/millions	CHF	CNY	EUR	GBP	JPY	SEK	USD
2022							
Trade receivables	0.5	18.3	49.4	3.1	1,126.4	5.9	101.7
Unsecured bank loan	–	–	–	–	–	(300.0)	–
Trade payables	(1.3)	(57.4)	(23.1)	(5.8)	(79.1)	(108.2)	(25.1)
Balance sheet exposure	**(0.8)**	**(39.1)**	**26.3**	**(2.7)**	**1,047.3**	**(402.3)**	**76.6**
2021							
Trade receivables	0.3	6.4	45.1	2.2	922.2	5.5	97.0
Unsecured bank loan	–	–	–	–	–	(300.0)	–
Trade payables	(1.4)	(47.4)	(17.3)	(4.5)	(54.2)	(46.6)	(23.4)
Balance sheet exposure	**(1.1)**	**(41.0)**	**27.8**	**(2.3)**	**868.0**	**(341.1)**	**73.6**

Derivative assets and liabilities

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

In the year ended 30 June 2022, Cochlear designated the majority of forward exchange contracts as cash flow hedges. These are hedges of forecast future transactions to manage the currency risk arising from exchange rate fluctuations. The hedged items were highly probable foreign currency transactions.

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

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

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

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

In the year ended 30 June 2022, all cash flow hedges were effective at the reporting date.

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

	Weighted average rate	< 1 year $m	1 - 2 years $m
2022			
Buy CHF	0.664	(21.8)	–
Sell EUR	0.627	131.9	61.1
Sell GBP	0.548	20.1	9.1
Sell JPY	82.331	18.4	8.5
Buy SEK	6.629	(40.0)	–
Sell USD	0.732	258.6	159.6
Total		**367.2**	**238.3**
2021			
Buy CHF	0.678	(18.6)	–
Sell EUR	0.617	146.3	95.9
Sell GBP	0.544	21.3	9.0
Sell JPY	76.901	18.2	9.2
Buy SEK	6.414	(32.7)	–
Sell USD	0.741	264.5	171.4
Total		**399.0**	**285.5**

Currency risk – Sensitivity analysis

An analysis based on a 10% strengthening of foreign currencies would have increased Cochlear's profit for the year ended 30 June 2022 after tax by approximately AUD 9.5 million (2021: increased profit by AUD 11.4 million) and decreased Cochlear's equity by AUD 58.8 million (2021: decrease by AUD 40.4 million). A 10% weakening of the foreign currencies would have decreased Cochlear's profit for the year ended 30 June 2022 after tax by approximately AUD 9.9 million (2021: decreased profit by AUD 10.3 million) and increased equity by AUD 25.2 million (2021: increase by AUD 49.9 million).

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

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

	Average rate		Reporting date spot rate	
AUD 1 =	**2022**	**2021**	**2022**	**2021**
CHF	0.674	0.679	0.657	0.692
CNY	4.685	4.940	4.607	4.856
EUR	0.643	0.625	0.658	0.631
GBP	0.546	0.553	0.567	0.542
JPY	85.242	79.464	94.010	83.025
SEK	6.696	6.421	7.037	6.561
USD	0.724	0.745	0.688	0.752

Interest rate risk

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

At the reporting date, the interest rate profile of Cochlear's interest-bearing financial instruments is financial assets of $629.3 million (2021: $609.6 million) and financial liabilities of $42.6 million (2021: $45.0 million).

Interest rate risk – Sensitivity analysis

For the year ended 30 June 2022, it is estimated that a general increase of one percent in interest rates would have reduced Cochlear's profit after income tax and equity by approximately $0.5 million (2021: reduced profit by $0.3 million). A one percent general decrease in interest rates would have had the equal but opposite effect on Cochlear's loss and equity.

(b) Credit risk

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

Credit risk management – Trade and other receivables

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

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

The maximum exposure to credit risk for trade receivables at the reporting date by geographic region was:

	Americas $m	EMEA $m	Asia Pacific $m	Total $m
2022	109.5	129.4	69.5	**308.4**
2021	88.4	125.9	47.8	**262.1**

Depending on the region, Cochlear's credit terms are generally 30 days; however, there are certain jurisdictions where it is customary practice for customers to make payment beyond 270 days. Although Cochlear discloses the balance as overdue, it is not indicative of a higher than normal credit risk as payments are typically received by Cochlear within the extended timeframes.

Cochlear has established an allowance for impairment that represents its estimate of the expected credit losses in respect of trade receivables. The expected credit losses are assessed by reference to historical collection trends and timing of recoveries of each customer type within a region.

Trade and other receivables are stated at amortised cost less impairment losses. The ageing of Cochlear's trade receivables at the reporting date was:

	2022 $m	2021 $m
Trade receivables		
Not past due	246.8	220.7
Past due 1 - 60 days	36.8	29.9
Past due 61 - 180 days	15.8	14.0
Past due 181 - 360 days	19.9	6.3
Past due 361 days and over	6.1	9.0
	325.4	**279.9**
Allowance for impairment losses	(17.0)	(17.8)
Trade receivables net of allowance for impairment losses	**308.4**	**262.1**
Other receivables – current	40.1	34.2
Trade and other receivables	**348.5**	**296.3**

Credit risk management – Cash deposits, term deposits and forward exchange contracts

The majority of Cochlear's cash deposits, term deposits and all forward exchange contracts are only executed with leading financial institutions whose credit rating is at least 'A' on the Standard & Poor's rating index.

(c) Liquidity risk

Liquidity risk is the risk that Cochlear will not be able to meet its financial obligations as they fall due. Cochlear manages liquidity risk by ensuring, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due.

Non-derivative liabilities

Contractual maturities of non-derivative financial liabilities, including estimated interest payments and excluding the impact of netting agreements, are as follows:

	Effective interest rate Per annum	Carrying amount $m	Contractual cash flows $m	< 1 year $m	1 - 2 years $m	2 - 5 years $m	More than 5 years $m
2022							
SEK floating rate loan	1.66%	42.6	43.1	43.1	–	–	–
Trade and other payables	–	232.7	232.7	232.4	0.3	–	–
Lease liability	–	211.3	247.6	35.4	31.8	69.7	110.7
Total		**486.6**	**523.4**	**310.9**	**32.1**	**69.7**	**110.7**
2021							
SEK floating rate loan	0.66%	45.7	46.2	0.3	45.9	–	–
Trade and other payables	–	203.6	203.6	202.9	0.7	–	–
Lease liability	–	219.3	260.3	31.9	29.1	72.6	126.7
Total		**468.6**	**510.1**	**235.1**	**75.7**	**72.6**	**126.7**

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier or at significantly different amounts.

Derivative assets and liabilities

The following table indicates the periods in which the cash flows associated with Cochlear's derivatives are expected to occur:

	Carrying amount $m	Contractual cash flows $m	< 1 year $m	1 - 2 years $m
2022				
Assets	10.8	10.8	8.4	2.4
Liabilities	(28.8)	(29.8)	(22.8)	(7.0)
Total	**(18.0)**	**(19.0)**	**(14.4)**	**(4.6)**
2021				
Assets	20.9	20.9	17.6	3.3
Liabilities	(7.9)	(7.9)	(4.7)	(3.2)
Total	**13.0**	**13.0**	**12.9**	**0.1**

The expected impact on the Income statement is not considered to be significantly different to the cash flow impact above.

(d) Fair value

The carrying amounts and estimated fair values of Cochlear's financial assets and liabilities are materially the same. The fair value of forward exchange contracts is based upon the listed market price, if available. If a listed market price is not available, the fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using benchmark bill futures and swap rates. These fair values are provided by independent third parties.

Valuation of financial assets and liabilities

For financial assets and liabilities measured and carried at fair value, Cochlear uses the following levels to categorise the valuation methods used:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

All of Cochlear's forward exchange contracts were valued using observable market inputs (Level 2) and there were no transfers between levels during the year.

7. Other notes

7.1 Auditors' remuneration

	2022 $	2021 $
Audit services		
Auditors of the Company – KPMG:		
– audit and review of financial reports	2,068,476	2,030,461
Total audit services	**2,068,476**	**2,030,461**
Non-audit services		
Auditors of the Company – KPMG:		
– taxation compliance and advisory services	977,589	1,370,782
– other	68,824	52,942
Total non-audit services	**1,046,413**	**1,423,724**

7.2 Commitments

Capital expenditure commitments

As at 30 June 2022, Cochlear entered into contracts to purchase property, plant and equipment for $22.1 million (2021: $20.4 million).

7.3 Controlled entities

Subsidiaries conduct business transactions with various controlled entities. Such transactions include purchases and sales of certain products, dividends, interest and loans.

	Interest held		Country of incorporation/ formation
	2022 %	2021 %	
Company			
Cochlear Limited			Australia
Controlled entities			
Cochlear AG	100	100	Switzerland
Cochlear Americas	100	100	USA
Cochlear Austria GmbH	100	100	Austria
Cochlear Benelux NV	100	100	Belgium
Cochlear Bone Anchored Solutions AB	100	100	Sweden
Cochlear Boulder LLC	100	100	USA
Cochlear Brasil Ltda	100	–	Brazil
Cochlear Canada Inc	100	100	Canada
Cochlear Clinical Services LLC	100	100	USA
Cochlear Colombia SAS	100	100	Colombia
Cochlear Deutschland GmbH & Co KG	100	100	Germany
Cochlear Employee Share Trust	100	100	Australia
Cochlear Europe Finance GmbH	100	100	Germany
Cochlear Europe Limited	100	100	UK
Cochlear Finance Pty Limited	100	100	Australia
Cochlear France SAS	100	100	France
Cochlear German Holdings Pty Limited	100	100	Australia
Cochlear Incentive Plan Pty Ltd	100	100	Australia
Cochlear Investments Pty Ltd	100	100	Australia
Cochlear Investments (No. 2) Pty Ltd	100	100	Australia
Cochlear Italia SRL	100	100	Italy

Cochlear Korea Limited		100	100	Korea
Cochlear Labs Pty Limited		100	100	Australia
Cochlear Latinoamerica S.A.		100	100	Panama
Cochlear Malaysia Sdn. Bhd.		100	100	Malaysia
Cochlear Manufacturing Corporation		100	100	USA
Cochlear Medical Device (Beijing) Co., Ltd		100	100	China
Cochlear Medical Device (Chengdu) Co Ltd		100	100	China
Cochlear Medical Device Company India Private Limited		100	100	India
Cochlear Mexico SA de CV		100	100	Mexico
Cochlear Middle East FZ-LLC		100	100	UAE
Cochlear Nordic AB		100	100	Sweden
Cochlear Norway AS		100	100	Norway
Cochlear NZ Limited		100	100	New Zealand
Cochlear Research and Development Limited		100	100	UK
Cochlear Russia LLC		100	–	Russia
Cochlear Shared Services S.A.		100	100	Panama
Cochlear Sweden Holdings AB		100	100	Sweden
Cochlear Taiwan Limited		100	100	Taiwan
Cochlear Tibbi Cihazlar ve Saglik Hizmetleri Limited Sirketi		100	100	Turkey
Cochlear Verwaltungs GmbH		100	100	Germany
Cochlear (HK) Limited		100	100	Hong Kong
Cochlear (Thailand) Limited		100	100	Thailand
Cochlear (UK) Limited	(i)	100	100	UK
Medical Insurance Pte Limited		100	100	Singapore
Nihon Cochlear Co Limited		100	100	Japan
Sichuan Keli ShuangChuang Technology Co Ltd		51	51	China
Sycle, LLC		100	100	USA
Sycle.Net Technologies (Canada) Ltd		100	100	Canada

(i) Dormant.

7.4 Parent entity disclosure

At, and throughout the financial year ended, 30 June 2022, the parent company of Cochlear was Cochlear Limited.

	2022 $m	2021 (Restated)[1] $m
Result of the parent entity		
Net profit	329.1	245.8
Other comprehensive (loss)/income	(22.2)	8.3
Total comprehensive income	**306.9**	**254.1**
Financial position of the parent entity at year end		
Current assets	1,367.2	1,192.6
Total assets	**2,034.1**	**1,891.1**
Current liabilities	356.5	282.8
Total liabilities	**496.7**	**474.7**
Total equity of the parent entity comprising:		
Share capital	1,276.6	1,276.6
Hedging reserve	(12.8)	9.1
Share-based payment reserve	76.2	68.4
Profit reserve	308.0	172.9
Accumulated losses	(110.6)	(110.6)
Total equity	**1,537.4**	**1,416.4**

[1] Comparative information has been restated for IFRIC decision on cloud computing costs. Refer to Note 7.6 for details.

Dividends will be paid from the profit reserve of Cochlear Limited, as the parent of the Consolidated Entity.

Dividend income from subsidiaries is recognised by the parent entity when the dividends are declared by the subsidiary.

Parent entity contingencies

The details of all contingent liabilities in respect of Cochlear Limited are disclosed in Note 5.7.

Parent entity capital commitments for acquisition of plant and equipment

As at 30 June 2022, the parent entity entered into contracts to purchase plant and equipment for $16.8 million (2021: $16.0 million).

7.5 Deed of Cross Guarantee

Cochlear Limited (the holding entity) together with the wholly-owned subsidiaries set out below (together referred to as the Closed Group) entered into a Deed of Cross Guarantee (the Deed) on 17 April 2019. As a result, pursuant to ASIC Corporations (Wholly-owned Companies) Instrument 2016/785, the wholly-owned subsidiaries set out below are relieved from the *Corporations Act 2001* requirement to prepare and lodge an audited financial report and directors' report. Under the Deed, Cochlear Limited has guaranteed to pay any outstanding liabilities upon the winding up of any wholly-owned subsidiary that is party to the Deed. Wholly-owned subsidiaries that are party to the Deed have also been given a similar guarantee in the event that Cochlear Limited or another party to the Deed is wound up.

The subsidiaries party to the Deed are:
Cochlear Finance Pty Limited;
Cochlear German Holdings Pty Limited;
Cochlear Investments Pty Ltd;
Cochlear Investments (No. 2) Pty Ltd; and
Cochlear Labs Pty Limited.

Set out below is the Income statement, Statement of comprehensive income, a summary of movements in retained earnings/(accumulated losses) and Balance sheet of the entities party to the Deed for the year ended 30 June 2022 and 30 June 2021:

	2022 $m	2021 (Restated)[1] $m
Income statement		
Revenue	1,169.3	959.7
Cost of sales	(405.8)	(351.1)
Gross profit	**763.5**	**608.6**
Selling, marketing and general expenses	(69.1)	(65.3)
Research and development expenses	(133.6)	(129.8)
Administration expenses	(156.6)	(110.5)
Other income	118.8	105.5
Other expenses	(86.4)	(95.0)
Patent litigation expense	–	(6.4)
Share of losses on equity accounted investments	–	(1.7)
Results from operating activities	**436.6**	**305.4**
Finance income – interest	3.1	4.3
Finance expense – interest	(7.0)	(10.1)
Net finance expense	**(3.9)**	**(5.8)**
Profit before income tax	**432.7**	**299.6**
Income tax expense	(91.0)	(16.4)
Net profit	**341.7**	**283.2**
Statement of comprehensive income		
Financial investments measured at fair value through other comprehensive income, net of tax	(83.8)	40.7
Foreign currency translation differences	(0.1)	(0.1)
Effective portion of changes in fair value of cash flow hedges, net of tax	(16.9)	11.2
Net change in fair value of cash flow hedges transferred to the Income statement, net of tax	(5.0)	(3.0)
Total comprehensive income	**235.9**	**332.0**
Retained earnings/(accumulated losses) at beginning of year	116.2	(91.4)
Net profit	341.7	283.2
Dividends recognised	(194.0)	(75.6)
Retained earnings at end of year	**263.9**	**116.2**

[1] Comparative information has been restated for IFRIC decision on cloud computing costs. Refer to Note 7.6 for details.

Balance sheet	2022 $m	2021 (Restated)[1] $m
Assets		
Cash and cash equivalents	542.7	514.2
Trade and other receivables	614.5	441.9
Forward exchange contracts	8.0	17.6
Inventories	150.3	141.0
Current tax assets	34.0	65.1
Prepayments	18.4	13.4
Total current assets	**1,367.9**	**1,193.2**
Forward exchange contracts	2.4	3.3
Loans and borrowings – internal	122.3	121.3
Investments in subsidiaries	436.0	432.2
Investments	119.0	199.5
Other financial assets	68.8	27.3
Property, plant and equipment	118.8	111.7
Intangible assets	102.6	91.2
Deferred tax assets	44.8	89.5
Right of use asset	104.9	113.5
Total non-current assets	**1,119.6**	**1,189.5**
Total assets	**2,487.5**	**2,382.7**
Liabilities		
Trade and other payables	177.8	201.7
Forward exchange contracts	22.3	4.6
Loans and borrowings – external	42.6	–
Loans and borrowings – internal	150.1	86.8
Current tax liabilities	4.3	2.8
Employee benefit liabilities	54.6	45.1
Provisions	19.1	14.4
Deferred revenue	24.9	5.2
Lease liability	15.5	14.8
Total current liabilities	**511.2**	**375.4**
Forward exchange contracts	6.5	3.2
Loans and borrowings – external	–	45.0
Loans and borrowings – internal	264.6	265.1
Employee benefit liabilities	3.8	4.0
Provisions	20.7	21.2
Deferred tax liabilities	21.5	50.2
Lease liability	109.8	118.7
Total non-current liabilities	**426.9**	**507.4**
Total liabilities	**938.1**	**882.8**
Net assets	**1,549.4**	**1,499.9**
Equity		
Share capital	1,276.6	1,276.6
Reserves	8.9	107.1
Retained earnings	263.9	116.2
Total equity	**1,549.4**	**1,499.9**

[1] Comparative information has been restated for IFRIC decision on cloud computing costs. Refer to Note 7.6 for details.

7.6 Changes in accounting policies

In April 2021, the International Financial Reporting Standards Interpretations Committee issued an agenda decision, *Configuration or Customisation Costs in a Cloud Computing Arrangement*. The decision discussed whether configuration or customisation expenditure relating to cloud computing arrangements can be recognised as an intangible asset and if not, over what time period the expenditure is expensed.

Cochlear's accounting policy has historically been to capitalise all configuration and customisation costs related to cloud computing arrangements as intangible assets. The adoption of this agenda decision has resulted in a change in accounting policy to expense in Income statement configuration and customisation costs in cloud computing arrangements. A portion of previously capitalised intangible assets has been reclassified to an expense in the Income statement, impacting both the current and prior periods presented.

Following the adoption of the new policy, Cochlear has expensed $21.6 million in configuration and customisation expenditure for the year ended 30 June 2022. These costs have been classified as Administration expenses in the Income statement and $21.6 million in related payments classified as Cash paid to suppliers and employees in the Statement of cash flows.

The change in accounting policy has been retrospectively applied and comparative information in the primary statements and notes have been restated, including as follows:

Balance sheet - Extract

	As at 30 June 2021			As at 1 July 2020		
	Reported $m	Adjustment $m	Restated $m	Reported $m	Adjustment $m	Restated $m
Intangible assets	402.8	(17.3)	385.5	410.3	(13.4)	396.9
Deferred tax assets	146.8	5.2	152.0	147.1	4.0	151.1
Total non-current assets	**1,208.2**	**(12.1)**	**1,196.1**	**1,098.2**	**(9.4)**	**1,088.8**
Total assets	**2,438.2**	**(12.1)**	**2,426.1**	**2,575.7**	**(9.4)**	**2,566.3**
Net assets	**1,701.7**	**(12.1)**	**1,689.6**	**1,401.5**	**(9.4)**	**1,392.1**
Retained earnings	367.2	(12.1)	355.1	116.4	(9.4)	107.0
Total Equity	**1,701.7**	**(12.1)**	**1,689.6**	**1,401.5**	**(9.4)**	**1,392.1**

Income statement - Extract

	2021		
	Reported $m	Adjustment $m	Restated $m
Administration expenses	(112.2)	(3.9)	(116.1)
Results from operating activities	**374.1**	**(3.9)**	**370.2**
Profit before income tax	**365.7**	**(3.9)**	**361.8**
Income tax expense	(39.2)	1.2	(38.0)
Net profit	**326.5**	**(2.7)**	**323.8**
Basic earnings per share (cents)	496.7	(4.1)	492.6
Diluted earnings per share (cents)	496.7	(4.1)	492.6

Statement of cash flows - Extract

	2021		
	Reported $m	Adjustment $m	Restated $m
Cash paid to suppliers and employees	(1,150.2)	(5.9)	(1,156.1)
Net cash provided by operating activities	**271.3**	**(5.9)**	**265.4**
Acquisition of IT system costs	(5.9)	5.9	–
Net cash provided by investing activities	**274.0**	**5.9**	**279.9**

There have been no other changes to accounting policies materially impacting Cochlear in the current financial year.

7.7 New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for financial years beginning on or after 1 July 2021 and have not been applied in preparing these consolidated financial statements. These new standards are not expected to have an effect on the consolidated financial statements of Cochlear.

7.8 Events subsequent to the reporting date

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

Dividends

For dividends declared after 30 June 2022, see Note 2.6.

Directors’ declaration

1. In the opinion of the directors of Cochlear Limited (the Company):
    a) the consolidated financial statements and notes and the Remuneration report are in accordance with the *Corporations Act 2001*, including:
        i) giving a true and fair view of the Consolidated Entity’s financial position as at 30 June 2022 and of its performance for the financial year ended on that date; and
        ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
    b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and
    c) at the date of this declaration, there are reasonable grounds to believe that the Company and each of the Closed Group entities identified in Note 7.5 will be able to meet any liabilities to which they are or may become subject to, because of the Deed of Cross Guarantee between the Company and those group entities pursuant to ASIC Corporations (Wholly-owned Companies) Instrument 2016/785.
2. The directors have been given the declarations required by section 295A of the *Corporations Act 2001* from the Chief Executive Officer & President and Chief Financial Officer for the financial year ended 30 June 2022.
3. The directors draw attention to Note 1.2(a) to the consolidated financial statements, which includes a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a resolution of the directors:

Dated at Sydney this 18th day of August 2022.

Director

Director

Independent auditor’s report to the shareholders of Cochlear Limited

Report on the audit of the Financial Report

Opinion

We have audited the Financial Report of Cochlear Limited (the Company).

In our opinion, the accompanying Financial Report of the Company is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the Consolidated Entity’s financial position as at 30 June 2022 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The Financial Report comprises:

- Balance sheet as at 30 June 2022;
- Income statement, Statement of comprehensive income, Statement of changes in equity, and Statement of cash flows for the year then ended;
- Notes including a summary of significant accounting policies; and
- Directors’ Declaration.

The Consolidated Entity consists of the Company and the entities it controlled at the year-end or from time to time during the financial year.

Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Auditor’s responsibilities for the audit of the Financial Report* section of our report.

We are independent of the Consolidated Entity in accordance with the *Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board’s APES 110 Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the Financial Report in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.

Key Audit Matters

The key audit matters we identified are:

- Recoverability of trade receivables; and
- Warranty provision.

Key Audit Matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Report of the current period.

These matters were addressed in the context of our audit of the Financial Report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Recoverability of trade receivables $308.4 million

Refer to Note 6.4(b) Financial risk management, credit risk

The key audit matter	How the matter was addressed in our audit
Recoverability of trade receivables was considered a key audit matter due to: • The varying characteristics of customers which include governments, government-supported universities, clinics and major hospital chains;	Our procedures included: • With the assistance of our IT specialists, testing key controls within the credit control process including: - management review and approval of new customer credit limits within the Consolidated Entity’s credit limit policies;

- The different geographical locations of customers and the political and economic environments they are subject to, which may affect the timely recovery of certain receivables;
- Trade receivables past due at the reporting date which have certain risk characteristics relevant to the assessment of recoverability;
- The inherent subjectivity involved in the Consolidated Entity making forward-looking judgements in relation to the recovery of credit risk exposures; and
- The Consolidated Entity's adoption of AASB 9 *Financial Instruments* requiring the use of an expected credit loss model.

These conditions gave rise to additional audit effort, including:

- Greater involvement by our senior team members to gather evidence across the various customer profiles and their trade receivables; and
- To challenge the forward-looking judgements made by the Consolidated Entity.

We involved IT specialists to supplement our senior team members in assessing this key audit matter.

  - the system configuration of credit limits; and
  - management's review of trade receivables ageing and trade receivables past due;
- Assessing the Consolidated Entity's expected credit loss model in significant geographies against the requirements of the accounting standards;
- Challenging the Consolidated Entity's view of credit risk and recoverability in certain locations by selecting a sample of significant overdue customer balances with indicators of credit deterioration. We:
  - noted the historical patterns for long outstanding trade receivables in those locations for those customer types, to form an understanding of the normal pattern of recovery and compared this to the age of the customer balances sampled;
  - assessed cash received subsequent to year-end from the Consolidated Entity's bank statements for its effect in reducing amounts outstanding at year-end;
  - evaluated other evidence including customer correspondence; and
  - questioned the Consolidated Entity's knowledge of future conditions which may impact expected customer receipts based on consistency of the results of the procedures performed above.
- Assessing the Consolidated Entity's disclosures of the quantitative and qualitative considerations in relation to trade receivables credit risk, by comparing these disclosures to our understanding of the matter and the requirements of the accounting standards.

Warranty provision $37.5 million

Refer to Note 5.6 Provisions

The key audit matter	How the matter was addressed in our audit
The warranty provision was considered a key audit matter due to: • The estimation uncertainty inherent in the key assumptions applied by the Consolidated Entity to determine the warranty provision; • The Consolidated Entity's evolving product portfolio, through the introduction of new generations, where each product's design and quality attributes can impact the key assumptions; • The inherent unpredictability of future failures resulting in claims under warranty; and	Our procedures included: • Obtaining an understanding of the evolving product portfolio, each product's warrantable period and history of claim rates, and the different attributes which impact the key assumptions used in the Consolidated Entity's warranty provision; • Testing the sensitivity of the warranty provision by varying key assumptions, within a reasonably possible range, to focus our further procedures; • Challenging the Consolidated Entity's ability to reliably estimate the key assumptions by comparing previous estimates to actual outcomes;

- The calculation is largely manually developed and therefore is at greater risk of error.

The key assumptions used in the Consolidated Entity's determination of the warranty provision are:

- The forecast claim rates of the multiple products in the portfolio;
- The ratio of repairing to replacing failed products;
- The forecast repair cost; and
- The forecast replacement cost which is based on standard forecasts of manufacturing costs.

Challenging these key assumptions required greater involvement by our senior team members.

- Assessing the integrity of the model for the warranty provision. This included checking the accuracy of the formulas within the model;
- Comparing the forecast claim rates of a sample of products to the historical warranty claims for that product or the historical warranty claims of previous generations of similar products;
- Comparing the forecast proportion of claims that can be repaired and associated repair costs to historical performance of the Global Repair Centre;
- Comparing the forecast replacement cost to standard manufacturing costs at the end of the period and actual manufacturing costs during the period to identify variances and their impact on the warranty provision;
- Enquiring of management responsible for product design and quality attributes and the Global Repair Centre to challenge the forward-looking assumptions used in the model; and
- Assessing the disclosures of the quantitative and qualitative considerations in relation to the warranty provision, by comparing these disclosures to our understanding of the matter and the requirements of the accounting standards.

Other Information

Other Information is financial and non-financial information in Cochlear Limited's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors are responsible for the Other Information.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*;
- implementing necessary internal controls to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error; and
- assessing the Consolidated Entity's and Company's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. This includes disclosing, as applicable, matters related to going concern

Independent auditor's report to the shareholders of Cochlear Limited

and using the going concern basis of accounting unless they either intend to liquidate the Consolidated Entity or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Financial Report.

A further description of our responsibilities for the audit of the Financial Report is located at the *Auditing and Assurance Standards Board* website at: http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf. This description forms part of our Auditor's Report.

Report on the Remuneration Report

Opinion

In our opinion, the Remuneration Report of Cochlear Limited for the year ended 30 June 2022, complies with *Section 300A* of the *Corporations Act 2001*.

Directors' responsibilities

The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with *Section 300A* of the *Corporations Act 2001*.

Our responsibilities

We have audited the Remuneration Report included in pages 70 to 89 of the Directors' report for the year ended 30 June 2022.

Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with *Australian Auditing Standards*.

KPMG

KPMG

Julian McPherson, *Partner*
Sydney, 18 August 2022

Notes

References

FY22 highlights

1. Cochlear estimates based on the published economic model findings of Neve et al 2021. Dollar amount relates to all recipients implanted with one or more cochlear implants in FY22 across the developed markets.
2. Hearing Screening: considerations for implementation. https://www.who.int/publications/i/item/9789240032767
3. The relationship between Malala Fund and Cochlear Foundation is described as a "partnership" for convenience and does not constitute a legal partnership, joint venture, agency, employment or any other relationship by which either party may become liable for the acts or omissions of the other.

Letter to shareholders

1. Cochlear estimates based on the published economic model findings of Neve et al 2021. Dollar amount relates to all recipients implanted with one or more cochlear implants in FY22 across the developed markets.
2. Hearing Screening: considerations for implementation. https://www.who.int/publications/i/item/9789240032767
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4. The relationship between Malala Fund and Cochlear Foundation is described as a "partnership" for convenience and does not constitute a legal partnership, joint venture, agency, employment or any other relationship by which either party may become liable for the acts or omissions of the other.
5. Cochlear Limited. D1926565. PSB Insights LLC. Cochlear Telehealth Study - December 2020

Growth opportunity

1. World report on hearing. Geneva: World Health Organization; 2021. Licence: CC BY-NC-SA 3.0 IGO. (https://www.who.int/activities/highlighting-priorities-for-ear-and-hearing-care).
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17. Barnett S. A hearing problem. American Family Physician [serial on the Internet]. (2002, Sep 1), [cited July 3, 2018]; 66(5): 911.
18. Mick P, Kawachi I, Lin F. The Association between Hearing Loss and Social Isolation in Older Adults. Otolaryngology And Head And Neck Surgery [serial on the Internet]. (2014), [cited July 3, 2018]; (3): 378.
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20. Kramer S, Kapteyn T, Houtgast T. Occupational performance: comparing normally-hearing and hearing-impaired employees using the Amsterdam Checklist for Hearing and Work. International Journal Of Audiology [serial on the Internet]. (2006, Sep), [cited July 3, 2018]; 45(9): 503-512.
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Strategic priorities: Grow the hearing implant market

1. WHO 2021 World Report on Hearing (https://www.who.int/activities/highlighting-priorities-for-ear-and-hearing-care).
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3. Unilateral Cochlear Implants for Severe, Profound, or Moderate Sloping to Profound Bilateral Sensorineural Hearing Loss. A Systematic Review and Consensus Statements, JAMA Otolaryngol Head Neck Surg. doi:10.1001/jamaoto.2020
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Shareholder information

Additional information required by Australian Securities Exchange Listing Rules and not disclosed elsewhere in this report. The information presented is as at 29 July 2022.

Substantial shareholders

Investor	Number of ordinary shares	%
BlackRock Inc	4,220,962	6.4
State Street Corporation	3,780,558	5.7
ABP (Algemen Burgerlijk PSF)	3,618,341	5.5
Total	**11,619,861**	**17.6**

Distribution of shareholders

Number of shares held	Number of ordinary shareholders	% shares
1 - 1,000	43,504	10.9
1,001 - 5,000	2,604	7.6
5,001 - 10,000	118	1.2
10,001 - 100,000	67	2.6
100,001 and over	15	77.7
Total	**46,308**	**100.0**

Non-marketable parcels – 224 shareholders held less than a marketable parcel of ordinary shares.

Twenty largest shareholders

Shareholder	Number of ordinary shares	%
HSBC Custody Nominees (Australia) Limited	29,929,736	45.50
J P Morgan Nominees Australia Pty Limited	9,232,006	14.04
Citicorp Nominees Pty Limited	5,195,387	7.90
BNP Paribas Noms Pty Ltd <DRP>	2,049,928	3.12
National Nominees Limited	1,812,476	2.76
BNP Paribas Nominees Pty Ltd <Agency Lending DRP A/C>	715,344	1.09
HSBC Custody Nominees (Australia) Limited-GSCO ECA	386,396	0.59
HSBC Custody Nominees (Australia) Limited <NT-Comnwlth Super CORP A/C>	360,746	0.55
Australian Foundation Investment Company Limited	324,174	0.49
Netwealth Investments Limited <Wrap Services A/C>	304,947	0.46
BNP Paribas Nominees Pty Ltd Hub24 Custodial Serv Ltd <DRP A/C>	239,876	0.36
Mr Christopher Graham Roberts	172,387	0.26
Citicorp Nominees Pty Limited <Colonial First State INV A/C>	171,493	0.26
Custodial Services Limited <Beneficiaries Holding A/C>	147,414	0.22
HSBC Custody Nominees (Australia) Limited - A/C 2	102,317	0.16
BNP Paribas Nominees Pty Ltd ACF Clearstream	86,107	0.13
HSBC Custody Nominees (Australia) Limited	63,693	0.10
Netwealth Investments Limited <Super Services A/C>	62,655	0.10
Cochlear Incentive Plan Pty Ltd <Cochlear Employee Share A/C>	60,109	0.09
BNP Paribas Nominees Pty Ltd <IB AU Noms Retailclient DRP>	59,445	0.09
Total	**51,476,636**	**78.27**

The 20 largest shareholders held 78.27% of the ordinary shares of the Company.

On market buy-back

There is no current on market buy-back.

Contact information

Cochlear headquarters

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Australia
Telephone: +612 9428 6555
Fax: +612 9428 6353
Website: www.cochlear.com

Shareholder enquiries

Access to shareholding information is available to investors through Computershare.

Computershare Investor Services Pty Limited
GPO Box 2975
Melbourne VIC 3001
Australia
Telephone: 1300 850 505
Email: web.queries@computershare.com.au
Website: www.computershare.com.au

Calendar of events

19 August 2022	FY22 results announced
18 October 2022	Annual general meeting
15 February 2023	HY23 results announced*
15 August 2023	FY23 results announced*

* Indicative dates only.

Annual general meeting

The annual general meeting of Cochlear Limited will be held on 18 October 2022 at 10.00am. Further details will be provided in the Notice of Meeting, which will be provided to shareholders in mid-September 2022. The Notice of Meeting will also be available on the ASX Company Announcements Platform and Cochlear's website at www.cochlear.com.

Hear now. And always

As the global leader in implantable hearing solutions, Cochlear is dedicated to helping people with moderate to profound hearing loss experience a life full of hearing. We have provided more than 700,000 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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www.cochlear.com