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ASX Announcement

15 February 2023

Appendix 4D and Half Year Financial Report

Cochlear Limited provides to the ASX the attached ASX Appendix 4D and the FY23 Half Year Financial Report for the period ended 31 December 2022, under ASX Listing Rule 4.2A.

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This announcement is authorised by the Cochlear Board of Directors.

Appendix 4D

Cochlear Limited Half Yearly Report As at 31 December 2022

Results for announcement to the market

			Movement from 31 December 2021	\$m
Sales Revenue ¹	up	9%	to	892.6
Total Revenue	up	8%	to	885.2
Earnings before interest and taxes (EBIT)	down	21%	to	185.7
Net profit for the period attributable to members	down	16%	to	141.6
Underlying net profit for the period ²	down	10%	to	141.6
Basic earnings per share (cents)	down	16%	to	215.3
Underlying basic earnings per share (cents) ²	down	10%	to	215.3
Dividend (dollars)	unchanged	0%	to	\$1.55

Net tangible assets per share at 31 December 2022 (cents) ³	down	3%	to	1,986.9
Net tangible assets per share at 31 December 2021 (cents)				2,039.5

Dividends	Amount per security	Franked amount per security ⁴	Conduit foreign income per security ⁴
Interim dividend per share (dollars)	\$1.55	\$0.54	\$0.70
Previous corresponding period (dollars)	\$1.55	\$0.00	\$0.54
Record date for determining entitlements to the dividend	22 March 2023		
Dividend payment date	14 April 2023		
No dividend reinvestment plans were in operation during or since the half-year.			

Additional Appendix 4D disclosure requirements can be found in the 31 December 2022 Interim Financial Report lodged with this document. This report is based on the 31 December 2022 Interim Financial Report which has been reviewed by KPMG with the Independent auditor's review report included in the 31 December 2022 Interim Financial Report.

This Appendix 4D and the 31 December 2022 Interim Financial Report should be read in conjunction with the 30 June 2022 Annual Report of Cochlear Limited.

¹ Sales revenue is the primary revenue reporting measure used by Cochlear for the purpose of assessing revenue performance of the Consolidated Entity. It represents total revenue excluding foreign exchange contract gains/losses on hedged sales.

² Excluding one-off and non-recurring items.

³ Net tangible assets are net assets less intangible assets.

⁴ Rounded to two decimal places.

Cochlear Limited and its controlled entities

ACN 002 618 073

Consolidated Interim Financial Report

31 December 2022

The directors present their report, together with the consolidated interim financial report of the Consolidated Entity (Cochlear), being Cochlear Limited (the Company) and its controlled entities, for the half year ended 31 December 2022 and the independent auditor's review report thereon.

Directors

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

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

Principal activities and review of operations and results

Other than as discussed in this report, there were no significant changes in the nature of operating activities during the half year ended 31 December 2022 and the results of those operations are set out below.

Review of operations

The following provides a summary of Cochlear's performance for the half year ended 31 December 2022.

	31 Dec 2022	31 Dec 2021
	\$m	\$m
Total Revenue	885.2	820.7
Sales revenue ¹	892.6	815.3
Statutory net profit²	141.6	169.3
Underlying net profit ³	141.6	157.5
Basic earnings per share (cents)	215.3	257.4
Diluted earnings per share (cents)	215.3	257.4
Underlying basic earnings per share (cents) ³	215.3	239.5
Interim dividend per share (dollars)	\$1.55	\$1.55

¹ Sales revenue is the primary revenue reporting measure used by Cochlear for the purpose of assessing revenue performance of the Consolidated Entity. It represents total revenue excluding foreign exchange (FX) contract losses on hedged sales of \$7.4m (31 December 2021 gains of \$5.4m).

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

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

Operational review

\$m	HY23	HY22	Change % (reported)	Change % (CC)	Sales Mix
Cochlear implants (units)	21,249	18,598	↑ 14%		
Sales revenue					
Cochlear implants	513.1	457.9	↑ 12%	↑ 9%	57%
Services (sound processor upgrades and other)	258.6	256.5	↑ 1%	0%	29%
Acoustics	120.9	100.9	↑ 20%	↑ 17%	14%
Total sales revenue	892.6	815.3	↑ 9%	↑ 7%	100%

Cochlear implants

Cochlear implant units increased 14% to 21,249 units, with strong growth across both developed and emerging markets. Sales revenue increased 12% (9% in CC) to \$513.1 million.

Developed market units grew over 10% with the US, Western Europe and Asia Pacific all delivering strong growth with average selling price in line with last year. The Cochlear™ Nucleus® 8 Sound Processor has been well received, commencing its rollout in Western Europe from October and the US during November. While clinical capacity appears to have stabilised across most countries, COVID infections and hospital staffing constraints continued to impact volumes in some regions. Market share remained strong supported by the strength of the product and services portfolio and the introduction of the Nucleus® 8 Sound Processor.

Emerging market units grew around 20% with strong growth across most countries, with most now trading well above pre-COVID levels. Growth was particularly strong in markets most impacted by COVID, including India and Latin America. Government tender activity increased following subdued activity during COVID shutdowns and private pay continued to perform strongly. China delivered strong growth despite the surge in COVID cases.

Services

Services revenue increased 1% (flat in CC) to \$258.6 million. Revenues slowed in anticipation of the launch of the Nucleus® 8 Sound Processor as an upgrade for recipients with the rollout commencing late in the half. It also follows the strong HY22 result where revenues increased 21% in CC as the business benefited from a strong lift in demand following COVID-related clinic shutdowns.

Acoustics

Acoustics revenue increased 20% (17% in CC) to a record \$120.9 million, with strong demand across all regions as the business benefits from a strong product offering and a continued recovery in surgery volumes following COVID delays. The Cochlear™ Osia® 2 System continues to gain momentum with new accounts opened in existing markets and a growing presence in new markets. The Cochlear™ Baha® 6 Max Sound Processor continues to generate demand for sound processor upgrades across all regions.

Underlying net profit decreases 6% in CC to \$142 million

Underlying net profit decreased 10% (6% in CC) to \$142 million, with the benefit of strong revenue growth offset by the impact of lower operating expenses in HY22. The underlying net profit margin, excluding the impact of cloud computing-related expenses, was 17%, just below the 18% long-term target.

Record sales revenue of \$893 million, an increase of 9% (7% in CC), was driven by strong demand for cochlear and acoustic implants.

The gross margin was maintained at 75% and was aligned to the longer-term target.

Operating expenses excluding cloud investment increased 15% (14% in CC) reflecting growing investment in R&D and market growth activities as well as new product launch costs which were primarily incurred in the first half. The increase is also a function of the lower operating expenses in HY22, with FY22 operating expenses weighted to the second half.

Cloud computing-related investment increased \$12 million to \$17 million, in line with guidance. Elevated investment is expected for the next few years as we transform our business processes and IT platforms.

The effective tax rate of 25% was in line with expectations.

Strong financial position

The balance sheet remains strong with net cash of \$505 million and operating cash flows sufficient to fund investing activities and capital expenditure.

An interim dividend of \$1.55 per share has been determined, in line with last year and representing a payout of 72% of underlying net profit.

Commencement of on-market share buy-back

We will commence a progressive on-market share buy-back program with the aim of reducing the cash balance to around \$200 million over a number of years. This program complements the existing dividend policy which targets a 70% payout of underlying net profit.

Pursuant to the program, the Board has approved an initial buy-back of up to \$75 million in shares over the next 12 months, equivalent to around half a percent of Cochlear shares on issue. The number of shares purchased will be contingent on the prevailing share price and market conditions.

A progressive buy-back program aligns with the interests of our shareholders by reducing shares on issue, providing gradual accretion in earnings per share and dividends per share over the long term.

Net cash was \$505 million on 31 December 2022 and is expected to reduce by approximately \$170 million following the acquisition of Oticon Medical.

The Board reserves the right to vary, suspend or terminate the buy-back at any time. Subject to market conditions, we expect to commence the buy-back in March.

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 continue to 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 driven by the rollout of the Nucleus® 8 Sound Processor. Demand for the new sound processor has been strong since its launch which commenced in October.

Trading conditions have been progressively improving, in line with expectations, with intermittent COVID-related hospital or region-specific elective surgery restrictions or staffing shortages continuing. While surgical and clinical capacity to serve implant candidates appears to have stabilised, we continue to be mindful of the pressure on the healthcare system globally to contend with surgical waiting lists, ongoing staffing challenges and growing demand.

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 65 cent AUD/EUR.

Capital expenditure is expected to be around \$100 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 targeted to complete by the end of FY23.

Financial review

Profit & loss

\$m	HY23	HY22	Change % (reported)	Change % (CC)
Sales revenue	892.6	815.3	9%	7%
Cost of sales	226.9	207.7	9%	7%
<i>% Gross margin</i>	75%	75%	0 pts	0 pts
Selling, marketing and general expenses	275.4	231.6	19%	17%
Research and development expenses	102.6	98.6	4%	5%
<i>% of sales revenue</i>	11%	12%	(1 pt)	(1 pt)
Administration expenses (excluding cloud investment)	76.2	65.1	17%	17%
Administration expenses (cloud investment)	17.3	5.2	233%	233%
Operating expenses	471.5	400.5	18%	17%
Other income / (expenses)	(1.1)	5.1		
FX contract gains / (losses)	(7.4)	5.4		
EBIT (underlying)*	185.7	217.6	(15%)	(10%)
<i>% EBIT margin*</i>	21%	27%		
Net finance expense	2.0	(3.5)		
Income tax expense*	(46.1)	(56.6)	(19%)	(14%)
<i>% Effective tax rate</i>	25%	26%		
Underlying net profit*	141.6	157.5	(10%)	(6%)
<i>% Underlying net profit margin*</i>	16%	19%		
<i>% Underlying net profit margin (pre cloud investment)*</i>	17%	20%		
<u>One-off and non-recurring items (after-tax):</u>				
Innovation fund gains	–	11.8		
Statutory net profit	141.6	169.3	(16%)	(12%)

* Excluding one-off and non-recurring items (refer p8).

Sales revenue increased 9% (7% in CC) to \$892.6 million and underlying net profit decreased 10% (6% in CC) to \$141.6 million. Statutory net profit decreased 16% to \$141.6 million.

Key points of note:

- Cost of sales increased 9% (7% in CC) to \$226.9 million, in line with the increase in sales revenue. The gross margin was maintained at 75% and was in line with the long-term target gross margin;
- Selling, marketing and general expenses increased 19% (17% in CC) to \$275.4 million reflecting continued investment in market growth activities, standard of care and market access initiatives and new product launch costs which were primarily incurred in the first half. The increase also reflects the impact of the weighting in expenses to the second half of FY22;
- Investment in R&D increased 4% (5% in CC) to \$102.6 million with continued investment made in key R&D projects and development of the product and services pipeline;
- Administration expenses (excluding cloud investment) increased \$11.1 million to \$76.2 million primarily driven by increases in short-term incentives and costs associated with the Oticon Medical transaction;
- Cloud investment of \$17.3 million was in line with expectations and forms part of the \$100-150 million investment in cloud-based technology solutions which will be incurred over four to five years; and
- Other expenses of \$1.1 million includes a \$7.2 million increase in FX revaluation losses on the balance sheet.

Cash flow

\$m	HY23	HY22	Change
EBIT (underlying)	185.7	217.6	(31.9)
Depreciation and amortisation	37.3	35.8	1.5
Changes in working capital and other	(85.3)	(79.0)	(6.3)
Net interest paid	2.0	(3.5)	5.5
Income taxes paid	(50.6)	(45.9)	(4.7)
Operating cash flow	89.1	125.0	(35.9)
Capital expenditure	(42.7)	(38.1)	(4.6)
Other net investments	(17.9)	(42.3)	24.4
Free cash flow	28.5	44.6	(16.1)
(Outlay) / proceeds from issue of shares	–	(1.2)	1.2
Dividends paid	(95.4)	(92.1)	(3.3)
Other	(14.4)	(10.3)	(4.1)
Change in net cash – increase / (decrease)	(81.3)	(59.0)	(22.3)

Operating cash flow decreased \$35.9 million to \$89.1 million.

Key points of note:

- Underlying EBIT declined by \$31.9 million reflecting the \$12.1 million increase in cloud computing investment, new product launch costs which were largely incurred in the first half and the impact of the weighting in operating expenses to the second half of FY22;
- Changes in working capital and other of \$85.3 million reflects the \$75.8 million increase in working capital, with trade receivables and inventory increases a function of the timing of the launch of the Nucleus® 8 Sound Processor late in the half;
- Capital expenditure (capex) increased by \$4.6 million to \$42.7 million, reflecting stay-in-business capex; and
- Other net investments of \$17.9 million comprises additional investment in the innovation fund for Precisis.

Capital employed

\$m	Dec22	Jun22	Change
Trade receivables	337.5	308.4	29.1
Inventories	285.7	270.2	15.5
Less: Trade payables	(201.2)	(232.4)	31.2
Working capital	422.0	346.2	75.8
<i>Working capital / sales revenue*</i>	24%	21%	
Property, plant and equipment	263.0	260.2	2.8
Intangible assets	408.3	392.5	15.8
Investments & other financial assets	175.1	187.9	(12.8)
Other net liabilities	(58.5)	(87.8)	29.3
Capital employed	1,209.9	1,099.0	110.9
Funding sources:			
Equity	1,715.3	1,685.7	29.6
Less: Net cash	(505.4)	(586.7)	81.3
Capital employed	1,209.9	1,099.0	110.9

* Dec22 calculation based on doubling HY23 sales revenue.

Capital employed increased \$110.9 million to \$1,209.9 million since June 2022.

Key points of note:

- Working capital increased \$75.8 million, lifting from 21% to 24% of sales revenue, with the increase partly timing related. The Nucleus® 8 Sound Processor was launched during the second quarter with inventory build in anticipation of the launch. The \$29.1 million increase in trade receivables reflects the timing of sales which was weighted to the end of the half. The \$31.2 million increase in trade payables reflects the timing of payments. Stay-in-business inventory levels remain higher than pre-COVID levels reflecting the building of safety stocks of both finished goods and some componentry over the past few years in anticipation of potential ongoing global supply chain shortages; and
- Net cash decreased \$81.3 million to \$505.4 million.

Dividends

	HY23	HY22	Change %
Interim ordinary dividend (per share)	\$1.55	\$1.55	0%
% Payout ratio (based on underlying net profit)	72%	65%	
% Franking	35%	0%	

An interim dividend of \$1.55 per share has been determined, in line with HY22 and representing a payout of 72% of underlying net profit. The interim dividend is franked at 35%. The franking balance had been depleted by losses incurred in FY20.

The ex-dividend date is 21 March 2023. The record date for calculating dividend entitlements is 22 March 2023 with the interim dividend expected to be paid on 14 April 2023.

Notes

Forward-looking statements

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

Non-International Financial Reporting Standards (IFRS) financial measures

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

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

Sales revenue

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

Underlying net profit

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

Constant currency

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

Reconciliation of constant currency net profit

\$m	HY23	HY22*	Change %
Underlying net profit	141.6	157.5	(10%)
FX contract movement		(12.8)	
Spot exchange rate effect to sales revenue and expenses*		12.4	
Balance sheet revaluation*		(7.2)	
Underlying net profit (CC)	141.6	149.9	(6%)
One-off net gains	–	11.8	
Statutory net profit (CC)	141.6	161.7	(12%)

* HY23 actual v HY22 at HY23 rates.

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

The lead auditor's independence declaration is set out on page 11 and forms part of the Directors' Report for the half year ended 31 December 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 (Rounding instrument) dated 24 March 2016 and in accordance with that Instrument, amounts in the Directors' Report and Financial Report have been rounded off to the nearest one hundred thousand dollars unless otherwise indicated.

Dated at Sydney this 14th day of February 2023.

Signed in accordance with a resolution of the directors:



Director



Director



Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To: the directors of Cochlear Limited

I declare that, to the best of my knowledge and belief, in relation to the review of Cochlear Limited for the half year ended 31 December 2022 there have been:

- (i) no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the review; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the review.

A handwritten signature of the KPMG firm, written in black ink.

A handwritten signature of Julian McPherson, written in black ink.

KPMG

Julian McPherson, Partner
Sydney, 14 February 2023

Interim income statement

	Note	31 Dec 2022 \$m	31 Dec 2021 \$m
Revenue	2.2	885.2	820.7
Cost of sales	2.3	(226.9)	(207.7)
Gross profit		658.3	613.0
Selling, marketing and general expenses		(275.4)	(231.6)
Research and development expenses		(102.6)	(98.6)
Administration expenses		(93.5)	(70.3)
Other income	2.4	6.7	22.5
Other expense	2.3	(7.8)	(0.6)
Results from operating activities		185.7	234.4
Finance income - interest		6.7	0.8
Finance expense - interest		(4.7)	(4.3)
Net finance expense		2.0	(3.5)
Profit before income tax		187.7	230.9
Income tax expense	3	(46.1)	(61.6)
Net profit		141.6	169.3
Basic earnings per share (cents)	2.5	215.3	257.4
Diluted earnings per share (cents)	2.5	215.3	257.4

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

Interim statement of comprehensive income

	31 Dec 2022	31 Dec 2021
	\$m	\$m
Net profit	141.6	169.3
<i>Other comprehensive (loss)/income</i>		
<i>Items that will not be reclassified subsequently to the income statement:</i>		
Financial investments measured at fair value through other comprehensive income, net of tax	(30.7)	(32.2)
Total items that will not be reclassified subsequently to the income statement	(30.7)	(32.2)
<i>Items that may be reclassified subsequently to the income statement:</i>		
Foreign currency translation differences	1.1	5.9
Effective portion of changes in fair value of cash flow hedges, net of tax	(1.7)	(8.2)
Net change in fair value of cash flow hedges transferred to the income statement, net of tax	5.2	(3.8)
Total items that may be reclassified subsequently to the income statement	4.6	(6.1)
Other comprehensive loss, net of tax	(26.1)	(38.3)
Total comprehensive income	115.5	131.0

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

Interim balance sheet

	Note	31 Dec 2022 \$m	30 Jun 2022 \$m
Assets			
Cash and cash equivalents		521.7	629.3
Term deposit		25.0	–
Trade and other receivables	4.1	390.9	348.5
Forward exchange contracts		5.2	8.4
Inventories		285.7	270.2
Current tax assets		41.7	41.9
Prepayments		45.2	28.7
Total current assets		1,315.4	1,327.0
Forward exchange contracts		3.0	2.4
Property, plant and equipment		263.0	260.2
Intangible assets		408.3	392.5
Investments	4.2	88.4	119.1
Equity-accounted investments	4.2	3.7	–
Other financial assets	4.2	83.0	68.8
Deferred tax assets		124.8	116.1
Right of use asset		177.1	179.0
Total non-current assets		1,151.3	1,138.1
Total assets		2,466.7	2,465.1
Liabilities			
Trade and other payables		201.2	232.4
Forward exchange contracts		18.2	22.3
Loans and borrowings	5.1	–	42.6
Current tax liabilities		18.5	15.2
Employee benefit liabilities		90.9	101.6
Provisions		24.5	22.7
Deferred revenue		74.5	54.7
Lease liability		36.4	36.1
Total current liabilities		464.2	527.6
Trade and other payables		0.2	0.3
Forward exchange contracts		3.1	6.5
Loans and borrowings	5.1	41.3	–
Employee benefit liabilities		6.7	6.4
Provisions		32.0	33.2
Deferred tax liabilities		23.3	22.4
Deferred revenue		7.9	7.8
Lease liability		172.7	175.2
Total non-current liabilities		287.2	251.8
Total liabilities		751.4	779.4
Net assets		1,715.3	1,685.7
Equity			
Share capital		1,276.7	1,276.6
Reserves		(62.9)	(46.2)
Retained earnings		501.5	455.3
Total equity		1,715.3	1,685.7

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

Interim statement of changes in equity

\$m	Issued capital	Translation reserve	Hedging reserve	Fair value reserve	Share-based payment reserve	Retained earnings	Total equity
Balance at 1 July 2021	1,276.6	(57.4)	9.1	37.8	68.4	355.1	1,689.6
<i>Total comprehensive income/(loss)</i>							
Net profit	–	–	–	–	–	169.3	169.3
Foreign currency translation differences	–	5.9	–	–	–	–	5.9
Effective portion of changes in fair value of cash flow hedges, net of tax	–	–	(8.2)	–	–	–	(8.2)
Net change in fair value of cash flow hedges transferred to the income statement, net of tax	–	–	(3.8)	–	–	–	(3.8)
Financial investments measured at fair value through other comprehensive income, net of tax	–	–	–	(32.2)	–	–	(32.2)
Total other comprehensive loss	–	5.9	(12.0)	(32.2)	–	–	(38.3)
Total comprehensive income	–	5.9	(12.0)	(32.2)	–	169.3	131.0
Transactions with owners, recorded directly in equity							
Dividends to shareholders	–	–	–	–	–	(92.1)	(92.1)
Performance rights vested	–	–	–	–	(0.7)	–	(0.7)
Share options exercised	–	–	–	–	(0.4)	–	(0.4)
Share based payment transactions	–	–	–	–	4.3	–	4.3
Deferred tax recognised in equity	–	–	–	–	(1.9)	–	(1.9)
Balance at 31 December 2021	1,276.6	(51.5)	(2.9)	5.6	69.7	432.3	1,729.8
Balance at 1 July 2022	1,276.6	(63.6)	(12.8)	(46.0)	76.2	455.3	1,685.7
<i>Total comprehensive income/(loss)</i>							
Net profit	–	–	–	–	–	141.6	141.6
Foreign currency translation differences	–	1.1	–	–	–	–	1.1
Effective portion of changes in fair value of cash flow hedges, net of tax	–	–	(1.7)	–	–	–	(1.7)
Net change in fair value of cash flow hedges transferred to the income statement, net of tax	–	–	5.2	–	–	–	5.2
Financial investments measured at fair value through other comprehensive income, net of tax	–	–	–	(30.7)	–	–	(30.7)
Total other comprehensive loss	–	1.1	3.5	(30.7)	–	–	(26.1)
Total comprehensive income	–	1.1	3.5	(30.7)	–	141.6	115.5
Transactions with owners, recorded directly in equity							
Shares issued	0.1	–	–	–	–	–	0.1
Dividends to shareholders	–	–	–	–	–	(95.4)	(95.4)
Share based payment transactions	–	–	–	–	7.0	–	7.0
Deferred tax recognised in equity	–	–	–	–	2.4	–	2.4
Balance at 31 December 2022	1,276.7	(62.5)	(9.3)	(76.7)	85.6	501.5	1,715.3

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

Interim statement of cash flows

	31 Dec 2022	31 Dec 2021
	\$m	\$m
Cash flows from operating activities		
Cash receipts from customers	866.6	804.9
Cash paid to suppliers and employees	(735.6)	(636.2)
Grant and other income received	6.7	5.7
Interest received	6.7	0.8
Interest paid	(4.7)	(4.3)
Income taxes paid	(50.6)	(45.9)
Net cash provided by operating activities	89.1	125.0
Cash flows from investing activities		
Acquisition of leasehold improvements and plant and equipment	(20.3)	(20.9)
Acquisition of IT system costs	(8.3)	(1.6)
Acquisition of other intangibles	(14.1)	(15.6)
Acquisition of investments	(17.9)	(42.3)
Acquisition of term deposits	(25.0)	–
Net cash used in investing activities	(85.6)	(80.4)
Cash flows from financing activities		
Proceeds from borrowings	–	2.4
Payment of lease liability	(15.3)	(12.4)
Outlay from exercise of share options and performance rights, net	–	(1.2)
Dividends paid	(95.4)	(92.1)
Net cash used in financing activities	(110.7)	(103.3)
Net decrease in cash and cash equivalents	(107.2)	(58.7)
Cash and cash equivalents at 1 July	629.3	609.6
Effect of exchange rate fluctuation on cash held	(0.4)	2.2
Cash and cash equivalents, net of overdrafts at 31 December	521.7	553.1

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

Notes to the Consolidated Interim Financial Report

1. Basis of preparation

1.1 Reporting entity

Cochlear Limited (the Company) is a company domiciled in Australia. The Consolidated Interim Financial Report of the Company as at and for the half year ended 31 December 2022 comprises the Company and its controlled entities (together referred to as Cochlear or the Consolidated Entity). Cochlear is a for-profit entity and operates in the implantable hearing device industry. Cochlear's Consolidated Annual Financial Report as at and for the year ended 30 June 2022 is available upon request from the Company's registered office at 1 University Avenue, Macquarie University NSW 2109, Australia or at www.cochlear.com.

1.2 Statement of compliance

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

The consolidated interim financial report does not include all of the information required for a full annual financial report and should be read in conjunction with Cochlear's consolidated annual financial report as at and for the year ended 30 June 2022. This report should also be read in conjunction with any public announcements made by Cochlear Limited during the half year ended 31 December 2022 in accordance with continuous disclosure obligations arising under the *Corporations Act 2001*.

The Consolidated Interim Financial Report was approved by the Board of Directors on 14 February 2023.

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

1.3 Significant accounting policies

The accounting policies applied by the Consolidated Entity in this Consolidated Interim financial report are the same as those applied by the Consolidated Entity in the Consolidated Annual Financial Report as at and for the year ended 30 June 2022.

1.4 Estimates and judgements

The preparation of the consolidated interim financial report requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. In preparing this consolidated interim financial report, the significant judgements made by management in applying Cochlear's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the Consolidated Annual Financial Report as at and for the year ended 30 June 2022.

1.5 New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for financial years beginning after 1 July 2022 and have not been applied in preparing these consolidated financial statements.

2. Performance for the half year

2.1 Operating 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	444.5	388.4	286.7	286.8	161.4	140.1	892.6	815.3
Reportable segment EBIT	232.5	213.9	127.4	137.9	56.8	46.3	416.7	398.1

1. Europe, Middle East and Africa.

Reconciliations of reportable segment revenues and profit or loss

Revenues	Cochlear implants	Services (sound processor upgrades and other)	Total Cochlear implants	Acoustics	Reportable segment revenue	Foreign exchange (loss)/gain on hedged sales	Consolidated revenue
	\$m	\$m	\$m	\$m	\$m	\$m	\$m
31 Dec 2022	513.1	258.6	771.7	120.9	892.6	(7.4)	885.2
31 Dec 2021	457.9	256.5	714.4	100.9	815.3	5.4	820.7

Profit or loss	Reportable segment EBIT	Corporate and other net expenses	Foreign exchange (loss)/gain on hedged sales	Net finance expense	Consolidated profit before income tax
	\$m	\$m	\$m	\$m	\$m
31 Dec 2022	416.7	(223.6)	(7.4)	2.0	187.7
31 Dec 2021	398.1	(169.1)	5.4	(3.5)	230.9

2.2 Revenue

	31 Dec 2022	31 Dec 2021
	\$m	\$m
Sale of goods before hedging	874.3	798.6
Foreign exchange (loss)/gain on hedged sales	(7.4)	5.4
Revenue from sale of goods	866.9	804.0
Rendering of services	18.3	16.7
Total revenue	885.2	820.7

2.3 Expenses

	31 Dec 2022	31 Dec 2021
	\$m	\$m
(a) Cost of sales		
Carrying amount of inventories recognised as an expense	222.6	199.7
Write-down in value of inventories	1.5	4.8
Other	2.8	3.2
Total cost of sales	226.9	207.7
(b) Other expenses		
Net foreign exchange loss	7.8	0.6
Total other expenses	7.8	0.6

2.4 Other income

	31 Dec 2022	31 Dec 2021
	\$m	\$m
Grant received or due and receivable	0.9	1.4
Net Fair value change in investments measured at fair value through profit or loss	–	16.8
Other	5.8	4.3
Total other income	6.7	22.5

In the prior period, Cochlear recognised a \$16.8 million net fair value gain from revaluation of investment in EpiMinder and other investments in the balance sheet measured at fair value through profit or loss.

Refer to Note 4.2 for further details on investments and other financial assets.

2.5 Earnings per share

Basic earnings per share

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

	31 Dec 2022	31 Dec 2021
Net profit attributable to equity holders of the parent entity	\$141,648,000	\$169,300,000
Weighted average number of ordinary shares (basic):		
Issued ordinary shares at 1 July (number)	65,775,339	65,744,078
Effect of options and performance shares exercised (number)	3,763	21,634
Effect of shares issued under Employee Share Plan (number)	125	–
Weighted average number of ordinary shares (basic)	65,779,227	65,765,712
Basic earnings per share (cents)	215.3	257.4

Diluted earnings per share

The calculation of diluted EPS has been based on the following net profit attributable to equity holders of the parent entity and weighted average number of shares outstanding after adjustments for the effects of all dilutive potential ordinary shares:

	31 Dec 2022	31 Dec 2021
Net profit attributable to equity holders of the parent entity	\$141,648,000	\$169,300,000
Weighted average number of ordinary shares (diluted):		
Weighted average number of shares (basic) (number)	65,779,227	65,765,712
Effect of options, performance shares and rights unvested (number)	–	1,811
Weighted average number of ordinary shares (diluted)	65,779,227	65,767,523
Diluted earnings per share (cents)	215.3	257.4

2.6 Options and performance rights

The Company has granted options and performance rights to certain employees and key management personnel under the Cochlear Executive Incentive Plan (CEIP). The terms and conditions of the plan are disclosed in the Consolidated Annual Financial Report as at and for the year ended 30 June 2022.

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

Grant date	Exercise price of options	Number of options	Number of performance rights	Contractual life
29 September 2022	–	–	40,519	2 years
19 October 2022	–	–	21,357	4 years
19 October 2022 ¹	\$216.33	67,487	–	6 years

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

2.7 Dividends

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

	Dollars per share	Total amount \$m	Franked/unfranked	Date of payment
31 December 2021				
Final – ordinary	1.40	92.1	0% Franked	18 October 2021
31 December 2022				
Final – ordinary	1.45	95.4	40% Franked	17 October 2022
Subsequent event				
Since the end of the financial year, the directors declared the following dividend:				
Interim – ordinary	1.55	102.0	35% Franked	14 April 2023

The financial effect of these dividends has not been brought to account in the consolidated Interim financial report for the half year ended 31 December 2021 and will be recognised in subsequent financial statements.

3. Income taxes

Numerical reconciliation between income tax expense and profit before income tax

	31 Dec 2022 \$m	31 Dec 2021 \$m
Net profit	141.6	169.3
Income tax expense	46.1	61.6
Profit before income tax	187.7	230.9
Tax at the Australian tax rate of 30% (Dec 2021: 30%)	56.3	69.3
Add/(less) adjustments for:		
Research and development allowances	(8.0)	(8.2)
Net non-deductible items	2.0	0.4
Effect of tax rate in foreign jurisdictions	(1.3)	(2.8)
Other adjustments for prior year	(2.9)	2.9
Income tax expense on profit before income tax	46.1	61.6

4. Operating assets and liabilities

4.1 Trade and other receivables

Receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less any allowance under the Expected Credit Loss (ECL) model. The ECL model has not materially changed since 30 June 2022. For further explanation of the ECL approach, refer to the 30 June 2022 annual financial report.

4.2 Investments, equity-accounted investments and other financial assets

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

	Investments	Equity-accounted investments	Other financial assets
	\$m	\$m	\$m
Balance at 1 July 2022	119.1	–	68.8
Additions	–	3.7	14.2
Fair value loss through other comprehensive income (before tax)	(30.7)	–	–
Balance at 31 December 2022	88.4	3.7	83.0

At 31 December 2022, \$102.4 million (June 2022: \$88.2 million) of investments and other financial assets are measured at fair value through profit or loss and designated as Level 3 financial assets. The remaining \$69.0 million (June 2022: \$99.7 million) are measured at fair value through other comprehensive income with \$37.8 million (June 2022: \$68.5 million) designated as Level 1 and \$31.2 million (June 2022: \$31.2 million) designated as Level 3.

Equity-Accounted Investments

During the period, Cochlear invested \$17.9 million in Precisis AG in ordinary shares (\$3.7 million) and convertible notes (\$14.2 million). The additional investment resulted in Cochlear's ownership interest, on an as converted basis, exceeding 20% with the interest held in shares (4.3%) being classified as an associate as at 31 December 2022.

4.3 Contingent liabilities

Contingent liabilities are disclosed where a provision is not recognised due to the uncertainty regarding the outcome of future events and/or inability to reliably measure such liabilities. The details of contingent liabilities are set out below. The directors are of the opinion that provisions are either adequate or are not required in respect of these matters, as it is either not probable that a future sacrifice of economic benefits will be required, or the amount is not capable of reliable measurement.

Patent infringement claim

Cochlear operates in an industry that has substantial intellectual property and patents protecting that intellectual property. From time to time, Cochlear is involved in confidential discussions with patent owners including competitors regarding threatened litigation for alleged infringement of patent rights. Current discussions are not expected to result in a significant adverse outcome for Cochlear.

Patent infringement lawsuit - 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 Nucleus 8 sound processor is being added to the complaint by the University following the recent commercial launch in the United States. 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. Individually significant confidential investigation(s) by an authority are not disclosed, as disclosure may prejudice Cochlear.

5. Financial and capital structure

5.1 Loans and Borrowings

	31 Dec 2022	30 Jun 2022
	\$m	\$m
Cash and term deposits		
Cash and cash equivalents	521.7	629.3
Term deposits ¹	25.0	–
Total cash and term deposits	546.7	629.3
Less: Total borrowings		
Current	–	(42.6)
Non-current	(41.3)	–
Total borrowings	(41.3)	(42.6)
Net cash	505.4	586.7

1. Term deposits are bank deposits with a fixed term maturity of longer than three months from inception. Bank deposits with a fixed term of less than three months are classified as cash and cash equivalents. Term deposits held as at 31 December 2022 will mature in April 2023.

Multi-option bank facilities - Unsecured bank loan

As at 31 December 2022, maturity profile of Cochlear's bank loan facilities are as follows:

Facility type	<1 year term	1 - 2 year term	2 - 3 year term	3 - 4 year term	5 - 6 year term	Total facilities
	\$m	\$m	\$m	\$m	\$m	
Committed debt including guarantees	115.0	–	100.0	100.0	42.4	357.4

All facilities are unsecured and have interlocking guarantees provided by certain controlled entities. Interest on the facilities is variable and changed at prevailing market rates.

Other credit facilities

Unsecured bank overdrafts

Certain unsecured bank overdrafts are payable on demand and are subject to annual review. Interest on unsecured bank overdrafts is variable and is charged at prevailing market rates.

Secured bank loan

Cochlear has no secured bank loans.

Bank guarantees

As at 31 December 2022, Cochlear had contingent liability facilities denominated in United States dollars, Euros, Sterling, Indian rupees and New Zealand dollars totalling AUD 10.0 million (June 2022: AUD 9.3 million).

5.2 Financial Instruments

Fair values

The carrying amounts and estimated fair value of Cochlear's financial assets and liabilities are materially the same.

The fair value of forward exchange contracts is based upon the listed market price, if available. If a listed market price is not available, the fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using benchmark bill futures and swap rates. These fair values are provided by independent third parties.

Valuation of financial assets and liabilities

For financial asset and liabilities measured and carried at fair value, Cochlear uses the following levels to categorise the valuation methods used:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

All of Cochlear's forward exchange contracts were valued using observable market inputs (Level 2).

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

There were no transfers between levels during the half year.

6. Other notes

6.1 Events subsequent to reporting date

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

Dividends

For dividends determined after 31 December 2022, see Note 2.7.

Directors' Declaration

In the opinion of the directors of Cochlear Limited:

1. The consolidated financial statements and notes set out on pages 12 to 24 are in accordance with the *Corporations Act 2001*, including:
 - a. giving a true and fair view of the Consolidated Entity's financial position as at 31 December 2022, and of its performance, for the six month period ended on that date; and
 - b. complying with Australian Accounting Standard AASB 134 *Interim financial reporting* and the *Corporations Regulations 2001*; and
2. There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the directors:

Dated at Sydney this 14th day of February 2023.



Director



Director



Independent auditor's review report

To the members of Cochlear Limited

Report on the Consolidated Interim Financial Report

Conclusion

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

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

- giving a true and fair view of the Consolidated Entity's financial position as at 31 December 2022 and of its performance for the half year ended on that date; and
- complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

The Consolidated Interim Financial Report comprises:

- the interim balance sheet as at 31 December 2022;
- the interim income statement, interim statement of comprehensive income, interim statement of changes in equity and interim statement of cash flows for the half year ended on that date;
- Notes 1 to 6 comprising a summary of significant accounting policies and other explanatory information; and
- The Directors' Declaration.

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

Basis for Conclusion

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

We are independent of the Consolidated Entity in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with these requirements.

Responsibilities of the Directors for the Consolidated Interim Financial Report

The Directors of the Consolidated Entity are responsible for:

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



Independent auditor's review report

Auditor's Responsibility for the Review of the Consolidated Interim Financial Report

Our responsibility is to express a conclusion on the Consolidated Interim Financial Report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the Consolidated Interim Financial Report does not comply with the *Corporations Act 2001* including giving a true and fair view of the Consolidated Entity's financial position as at 31 December 2022 and its performance for the half year ended on that date, and complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

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

A handwritten signature in black ink that reads 'KPMG'.

KPMG

A handwritten signature in black ink, appearing to read 'Julian McPherson'.

Julian McPherson, *Partner*

Sydney, 14 February 2023