Cochlear®
Hear now. And always

Cochlear Limited

Annual Report 2023

We help people hear and be heard.

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

We help 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 mission

Contents

About this report

Over the past several years sustainability has become increasingly integrated into our business strategy. For the financial year ended 30 June 2023 (FY23), we have combined our reporting on financial and sustainability performance into a single integrated publication, providing all key stakeholders with a holistic view of our business, strategy, value drivers, performance and governance.

The report has been prepared with reference to the GRI (Global Reporting Initiative) and in accordance with the IFRS (International Financial Reporting Standards) Foundation's Integrated Reporting Framework. We use these guidelines to help us to clearly articulate how we aim to deliver long-term sustainable value for all our key stakeholders.

Cochlear Limited (Cochlear) publishes a suite of reports annually including the Annual Report, Corporate Governance Statement and Tax Contribution Report, which are available at the Investors section of the website www.cochlear.com.

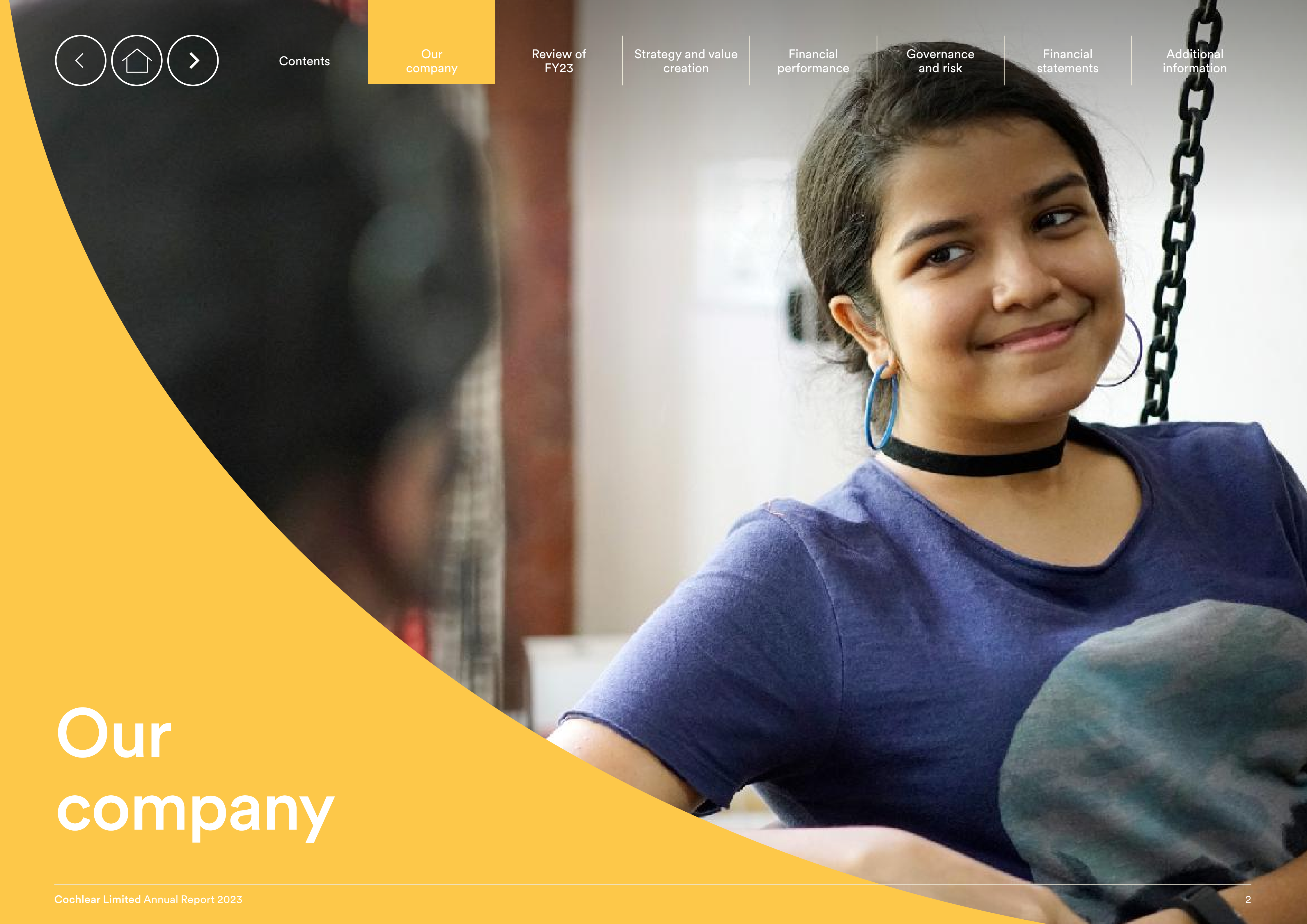
Acknowledgment of Country

Cochlear acknowledges the Aboriginal and Torres Strait Islander peoples and their custodianship of the various lands across Australia on which we work, live and learn. We pay our respects to ancestors and Elders past, present and emerging. Cochlear's global headquarters are located on the unceded lands of the Wallumattagal Peoples of the Darug Nation.

Front cover

Bernie, Cochlear™ Nucleus® System recipient

Find out more about Bernie on page 11.



Our company

About Cochlear

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

Our story

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.

Our company

Cochlear commenced operations in 1981 as part of the Nucleus group and in 1995 listed on the Australian Securities Exchange. Today, it is a Top 30 listed Australian company with a market capitalisation of over $15 billion.

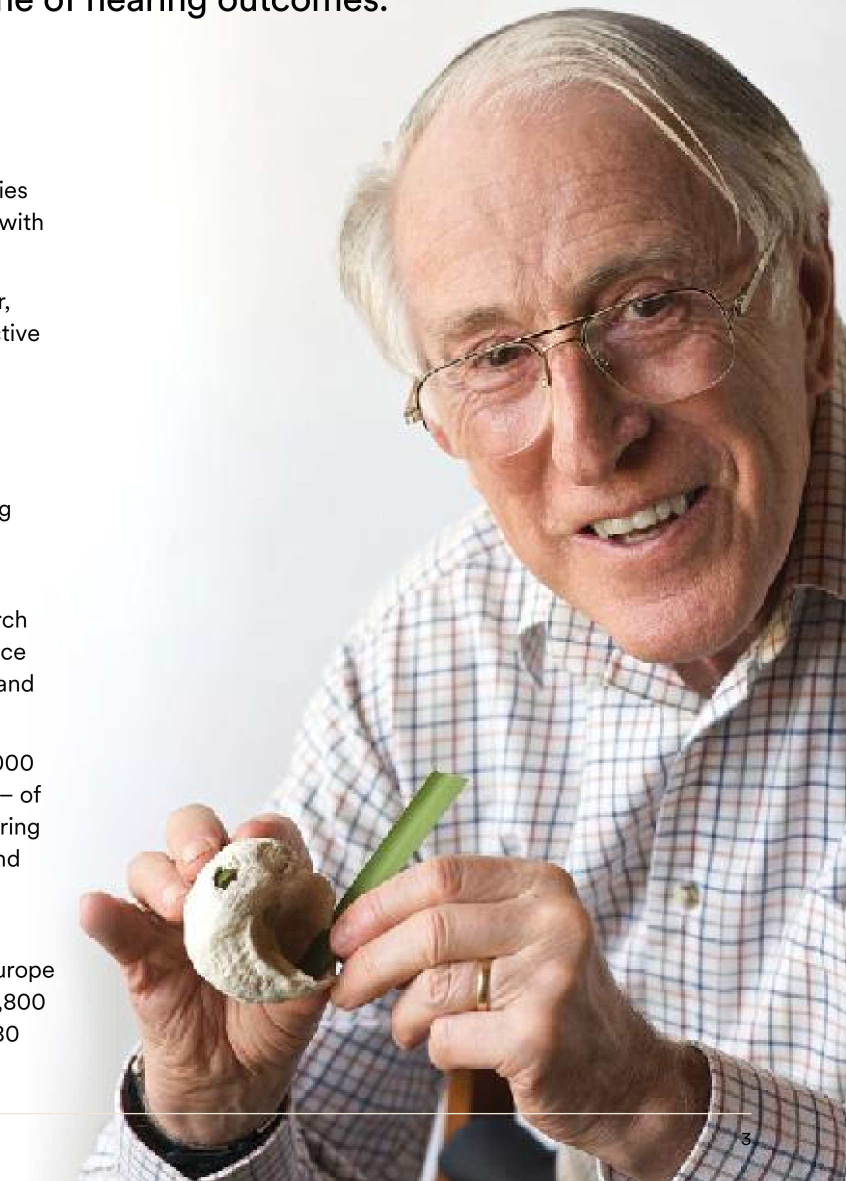
Our goal is to deliver value by helping more people to hear, which contributes to building a healthier and more productive society. Our strategy is focused on improving awareness of and access to implantable hearing solutions for people indicated for our products.

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

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

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

Our global headquarters are on the campus of Macquarie University in Sydney, with regional offices in Asia Pacific, Europe and the Americas. We have a global workforce of around 4,800 employees and a wide geographical reach, selling in over 180 countries, with employees based in over 50 countries.



Cochlear at a glance

Business segments

Cochlear Implants*

58% Cochlear implant systems

Services*

30% Sound processor upgrades, accessories and other

Acoustics*

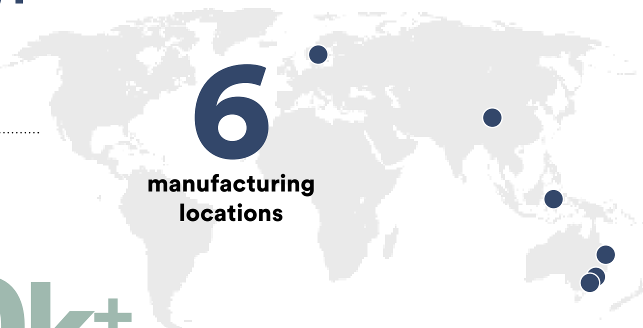
12% Bone conduction systems and sound processor upgrades

Global presence

>$1.9b in sales revenue* across **180+** countries

~4.8k employees across **50+** countries

53% female gender balanced workforce



6 manufacturing locations

Market leader

$240m+ in annual R&D investment

750k+ implants sold helping **~650k** people to hear#

AAA MSCI ESG rating Healthcare equipment & supplies**

99.87% Cochlear implant reliability^

>60% global market share^^

* Based on sales revenue (FY23) ^Nucleus® Profile™ Plus Series implant cumulative survival percentage within four years ^^Cochlear estimate for cochlear and acoustic implants
#Includes cochlear and acoustic implants. ** Measures a company's resilience to financially material environmental, societal and governance (ESG) risk

Product and services portfolio

Cochlear's market-leading portfolio aims to improve hearing outcomes for recipients and provide a lifetime of hearing solutions.

Cochlear implant portfolio

Cochlear™ Nucleus® System

Acoustic solutions portfolio

Cochlear Baha® System

Cochlear Osia® System

Recipient support tools

Cochlear Nucleus, Baha and Osia Smart Apps

Cochlear CoPilot App

Cochlear Connected Care solutions

Cochlear Nucleus SmartNav System

Cochlear Custom Sound® Pro Fitting Software

Cochlear™ Link

Cochlear Remote Assist

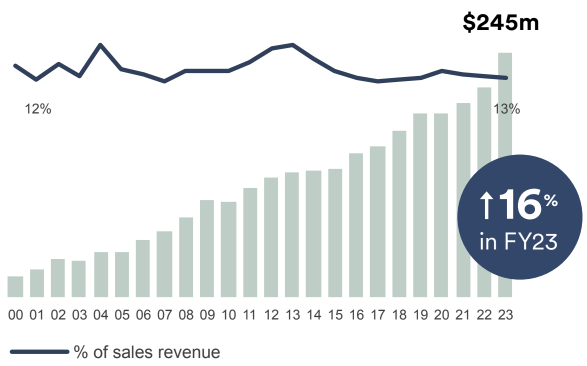
Cochlear Remote Check solution for cochlear implants

Financial history

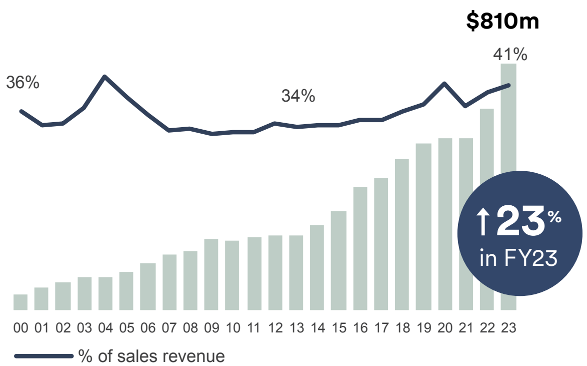
Cochlear has a long track record of investing to grow, delivering growing sales revenue, profits* and dividends.

Consistent investment in R&D and market growth activities

Research and development
$ million

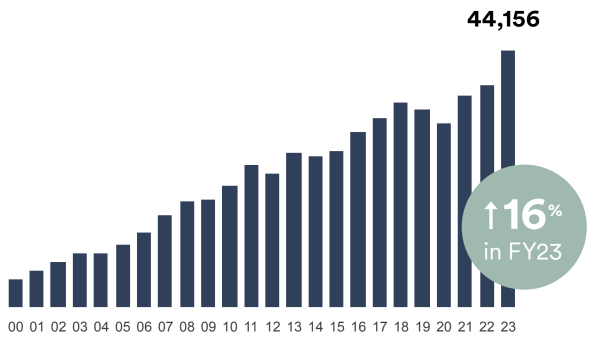


Operating expenses (excl R&D)
$ million

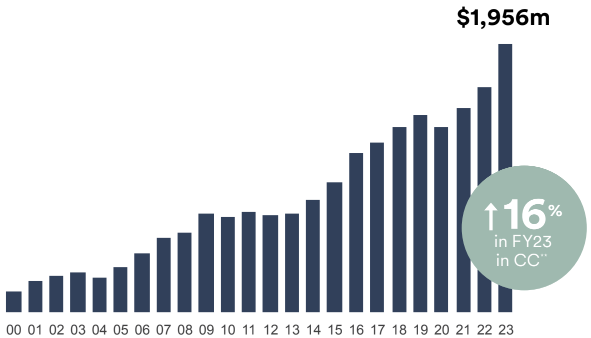


Long-term growth in sales revenue

Cochlear implants
units

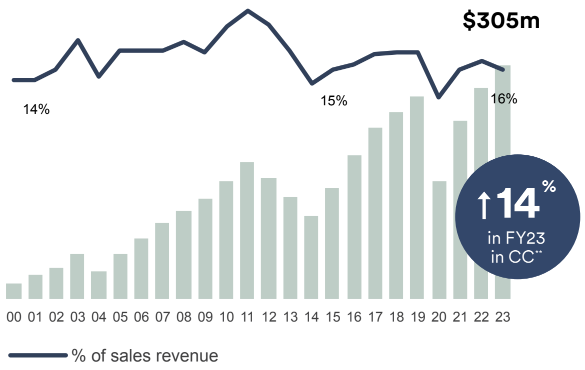


Sales revenue
$ million

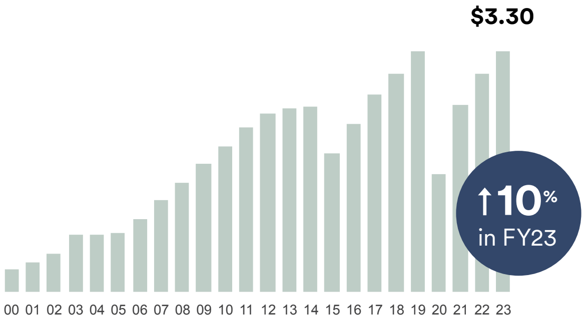


Growing profits and dividends

Underlying net profit*
$ million



Dividends
per share



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

Review of FY23

FY23 highlights

In FY23, we helped over 44,000 people hear with one – or two – of our cochlear or acoustic implants, providing an estimated net societal benefit of more than $7 billion over the lifetime of the recipients from improved health outcomes, educational cost savings and productivity gains.[1]

A healthier and more productive society

- Helped over 44,000 more people to hear with an implant, up 15%
- Progress made in strengthening the referral pathway for adults
- New evidence showing hearing intervention may slow cognitive decline
- Expanding indications and reimbursement in a number of countries

A lifetime of hearing solutions

- Invested over $240m in R&D, 13% of sales revenue, with a strong pipeline of products and services in development
- Launched the Cochlear™ Nucleus® 8 Sound Processor which is smaller, smarter and better connected than its predecessor
- Delivered latest generation sound processors to over 48,000 prior generation cochlear implant recipients, up 19%
- Bimodal control in the Nucleus® Smart App

Thriving people

- Continued focus on shaping our culture through training and leadership development programs
- Employee engagement maintained at 80%
- Continued to exceed gender targets with 43% women in senior manager roles and 40% women on the Board of directors

Environmental responsibility

- Reached 96% renewable energy at our manufacturing facilities, using 100% renewable energy in five of our six facilities
- Reduced our Scope 1 and 2 emissions by 68%, from our FY19 baseline
- Reduced the number of flights taken per full time employee by 47%, from our FY19 baseline, and our flight related emissions by 91%
- Initiated an inventory of our Scope 3 emissions

Sustained value

- Delivered record sales revenue, up 19% (16% in CC*)
- Underlying net profit** up 10% (14% in CC), the top end of the guidance range
- Underlying net profit margin of 17% (pre cloud investment)
- Full year dividends up 10%
- Obtained ISO 27001 Information Security certification of our Connected Care products
- Commenced on-market share buyback

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

Year in review

Over the past year, we have made great progress in our mission to help more people to hear. Our strong financial and operational results reflect our unwavering dedication to our customers and our disciplined approach to execution.

Our goal is to deliver value by helping more people to hear, which contributes to building a healthier and more productive society. To achieve our goal requires consistent investment over long timeframes. Our R&D investment horizons span over 10 years, and our ambition to improve the uptake of cochlear and acoustic implants requires long-term planning and investment.

An important long-term goal 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.

The evidence linking hearing loss to cognitive decline is building. A multi-year study in the US has been investigating whether hearing loss treatment could delay cognitive decline and dementia in older adults. In July, the study reported that after wearing hearing aids for three years, cognitive decline slowed by 48% for a group of older adults with mild to moderate hearing loss who were at a higher risk of cognitive decline.[2]

The findings are a major advancement in understanding the broader impact of hearing loss and the need for adults, policy makers and health professionals to prioritise treatment of hearing loss. It not only helps people to hear but has the potential to reduce cognitive decline for adults at high risk.

In FY23 we continued to lift our investment in research and development, with a strong pipeline of products and services in development. After many years in the making, we launched the Cochlear™ Nucleus® 8 Sound Processor. Designed to help recipients hear conversations more clearly and easily, it has enjoyed a strong positive reception in the market and was awarded the 2023 Red Dot Award for Design.

We have continued our work in shaping our culture through training and leadership development programs, with our employee engagement remaining high at 80%. And we made good progress towards our net-zero emissions targets, reducing Scope 1 and 2 emissions by 68% from our FY19 baseline.

This year we combined our reporting on financial and sustainability performance into a single integrated publication, providing all key stakeholders with a holistic view of our business, strategy, value drivers, performance and governance. Sustainability is embedded in our business strategy. We have long been focused on creating a positive social impact at both the individual and societal level, supported by a strong governance framework. Over the past few years, we have better integrated initiatives to minimise our environmental impact into our strategic priorities.

Sales revenue exceeded expectations, increasing 19% (16% in constant currency*) to a record $1,956 million, driven by growth across all business units.

Alison Deans
Chair

Dig Howitt
CEO & President

Underlying net profit** increased 10% (14% in CC) to $305 million, the top of the guidance range of $290-305 million.

The balance sheet remains strong with net cash of $556 million, with operating cash flows sufficient to fund investing activities and capital expenditure whilst delivering dividends to shareholders. A final dividend of $1.75 per share has been determined, an increase of 21% on last year, with full year dividends declared of $3.30 per share, an increase of 10%.

Over the following pages we provide greater details on the highlights for FY23, as well as the outlook for FY24.

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

A healthier and 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 to hear

Our mission is to help more people to hear and in FY23 we helped over 44,000 people hear with one – or two – of our cochlear or acoustic implants. In doing so, we provide an estimated net societal benefit of more than $7 billion over the lifetime of this year's new recipients from improved health outcomes, educational cost savings and productivity gains.[1]

Strengthening the referral 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 hearing 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.

Over the past few years, we have invested in awareness and access activities alongside industry professionals and advocacy groups. Achievements include the development of a global consensus on a minimum standard of care for treating adult hearing loss, the World Health Organization advocating for improved hearing screening, and the establishment of the Living Guidelines initiative. The Living Guidelines set clear, practical, evidence based recommendations to improve the standard of care and quality of life for adults living with hearing loss. Through clearer screening, diagnosis, referral, treatment and aftercare, thousands more people will be able to access the right treatment at the right time and reconnect to life.

During FY23 we collaborated with university partners, industry and advocacy groups globally to adapt the Living Guidelines into country-based clinical guidelines, with plans for their roll out over the coming years. We have also focused on increasing professional education to strengthen the referral channel.

New evidence showing hearing intervention slows cognitive decline

In July 2023, new research found that after wearing hearing aids for three years, cognitive decline slowed by 48% for a group of older adults with mild to moderate hearing loss who were at a higher risk of cognitive decline.[2] The results add to the growing evidence that support addressing modifiable risk factors for cognitive decline and dementia could be effective in reducing the future global burden of dementia.

The findings are a major advancement in understanding the broader impact of hearing loss and the need for adults, policy makers and health professionals to prioritise treatment of hearing loss. It not only helps people to hear but has the potential to reduce cognitive decline for adults at high risk.

Expanding indications and reimbursement

Over the past 12 months we have been successful in expanding indications and funding across a number of countries.

In the US, the Centers for Medicare & Medicaid Services expanded coverage of cochlear implants for Medicare beneficiaries to a level of hearing loss more closely aligned with the FDA indications and most private payers. Candidates with a moderate-to-profound hearing loss who demonstrate limited benefit from amplification will now be funded by Medicare.[3]

The introduction of newborn hearing screening is a key priority in emerging markets where penetration rates are very low. It is important for identification of children needing cochlear implants, enabling early intervention and providing better lifetime outcomes. This year Thailand and Malaysia committed to adopting universal newborn hearing screening and Karnataka in India adopted mandatory newborn hearing screening.

The Osia® 2 System achieved funding in Australia and New Zealand, and we achieved additional funding for cochlear implants in Canada, Argentina, Mexico and the Netherlands.

A lifetime of hearing solutions

We innovate to build a market-leading portfolio of high-quality products and services that improve hearing outcomes and support a lifetime of hearing outcomes for recipients. 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.

Growing investment in research and development

Our market-leading technology underpins our global market share of over 60%[4], and in FY23 we invested over $240 million in R&D, representing 13% of sales revenue. Our product pipeline is full, with good progress made across our key projects over the past year.

Launch of the Cochlear™ Nucleus® 8 Sound Processor

The Cochlear™ Nucleus® 8 Sound Processor achieved regulatory approval across major markets during the first half and has driven strong growth in sales revenue since launch. It is 15% smaller and 13% lighter than its predecessor.[5] It's smarter, designed to help recipients hear conversations more clearly and easily, particularly in noisy situations, and it is better connected, building on the direct streaming capabilities and connectivity features available in our latest sound processors.[6]

The Nucleus® 8 Sound Processor was awarded the 2023 Red Dot Award for Design in the Medical Devices and Technology category, recognising its outstanding design, including aesthetics, functionality and innovation providing an 'exceptional user experience'.[7]

Helping recipients hear better

The new Nucleus® 8 Sound Processor has driven strong growth in the Services segment. By delivering our latest sound processor upgrade technology to our recipient base, we helped over 48,000 of our prior generation cochlear implant recipients to hear better, improving their hearing and quality of life.

Bimodal control in the Nucleus® Smart App

We launched bimodal control in the Nucleus® Smart App to help patients quickly and easily manage their compatible ReSound hearing aid and Cochlear sound processor in one app to get the most out of their bimodal hearing. Recipients can access commonly used features such as volume adjustment and program selection to help achieve their best possible hearing experience.

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

Bernie, who appears on this year's cover, is a bilateral cochlear implant recipient. He has worked in media for over 30 years and says he would not have been able to work in the media at all without his cochlear implants.

Updating his sound processors has been an important part of Bernie's ability to work as a journalist, as well as his enjoyment of life. Bernie started with the Freedom® Sound Processor, and has upgraded to Nucleus 5, Nucleus 6 and now the Nucleus 8 Sound Processors, noting a significant improvement with each generation.

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 around 4,800 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.

We are pleased to report that overall employee engagement continues to remain strong at 80%, with 92% of employees reporting that they feel proud to tell people they work at Cochlear, 93% understand their contribution to our strategy and 94% understand how they contribute to the satisfaction of our customers.

Strengthening enterprise leadership

Integral to our culture work has been strengthening our enterprise leadership with a focus on inclusive leadership, building critical skills and capabilities at both an individual and organisational level. We broadened our Culture Conversations training through all levels of the organisation, with 75% of all people leaders globally having completed this training. We also continued to take steps to invest in our talent and made strong progress towards building the strategic capabilities which provide us with a sustainable competitive advantage over the longer-term.

Fostering a diverse and inclusive workplace

A diverse, equitable and inclusive organisation improves employee engagement, our performance and productivity as well as our customer engagement. Achieving gender equality is one important element of our diversity and inclusion strategy. Across the business, 53% of our people are female and we have achieved 43% female representation amongst our senior leaders. At Board level, 40% of directors are female.

We are committed to maintaining at least 40% female representation at senior manager and Board level.

Attracting, developing and retaining diverse and highly skilled leaders is key to creating value.

Gül joined Cochlear 10 years ago as General Manager Turkiye, Azerbajan and Georgia, and has established herself as a valued member of the global senior leadership team, committed to developing an inclusive culture and championing diversity.

Gül led the Turkiye Cochlear team through the devastating earthquakes which struck eastern Turkiye and northern Syria in February. With her team, Gül focused on supporting the more than 1,200 recipients and their families living across the region either through the provision of sound processors, parts and accessories and practical assistance at a time of great need. Gül was recognised for her contributions by the WeQual Asia-Pacific 2023 awards, which celebrates female leaders.

Environmental responsibility

We are implementing initiatives to promote the sustainable use of natural resources, reduce our environmental footprint and help tackle climate change.

Pathway to net-zero carbon emissions

We made significant progress in FY23, reducing Scope 1 and 2 emissions by 68% from our FY19 baseline by increasing renewable energy use at our manufacturing sites. We reached 96% renewable energy at our manufacturing facilities, using 100% renewable energy in five of our six facilities.

We are making steady progress in reducing business flight-related emissions. Our target is to reduce our flight-related emissions by 50% by FY25 from our FY19 baseline. In FY23 we reduced these emissions by 91%. We achieved this by reducing business flights per full time equivalent employee by 47% from our FY19 baseline and purchasing offsets for approximately 80% of our remaining business flights. In May we initiated a complete Scope 3 emissions inventory and expect to complete the process during FY24.

Enhancing resource efficiency

We are identifying ways to improve resource efficiency, reduce waste and drive greater circularity into our operations. In the US we worked with the regulator to achieve changes in our labelling, allowing us to implement electronic labelling for the Nucleus® 8 Sound Processor. As a result, we have saved over 9.4 million paper pages of manual labelling since November, as well as over 45,000 plastic sleeves. We are now exploring opportunities to collaborate with other regulators to see if we can implement these changes in other markets.

Environmentally responsible business practices help support our sustainability objectives.

In Malaysia we support the recycling centre of a charitable organisation that aims to offer employment opportunities to people who face physical and mental challenges, while also working towards minimising waste sent to landfill.

For FY23, our donations amounted to over 1 tonne of various recyclable materials such as paper, metal and glass with income from recycling activities used to fund skills development programs and support services for the disabled community.

By supporting the recycling centre, we play a crucial role in helping the charity achieve it's mission while promoting environmental sustainability.

Sustained value

Financial discipline and commitment to high standards of corporate governance and transparency are central to the creation, maintenance and enhancement of long-term sustainable value.

Underlying net profit* increases 14% in CC** to $305 million

We delivered record sales revenue of $1,956 million, an increase of 19% (16% in CC), driven by strong growth across all business units. Second half growth was particularly strong following the launch of the Nucleus® 8 Sound Processor, increasing 29% (24% in CC).

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

Operating expenses excluding cloud investment increased 20% (18% in CC) reflecting growing investment in R&D and market growth activities. As second half sales momentum increased, we took the opportunity to further lift our investment in growth activities.

Cloud computing-related investment increased $17 million to $39 million, a little above the $36 million guidance.

Underlying net profit increased 10% (14% in CC) to $305 million, the top end of the guidance range. The underlying net profit margin, excluding the impact of cloud computing-related expenses, was 17%, a point below our 18% long-term target.

Final dividend increases 21% to $1.75 per share

The balance sheet remains strong with net cash of $556 million, with operating cash flows sufficient to fund investing activities and capital expenditure whilst delivering dividends to shareholders.

A final dividend of $1.75 per share has been determined, an increase of 21% on last year, with full year dividends declared of $3.30 per share, an increase of 10% and representing a payout of 71% of underlying net profit.

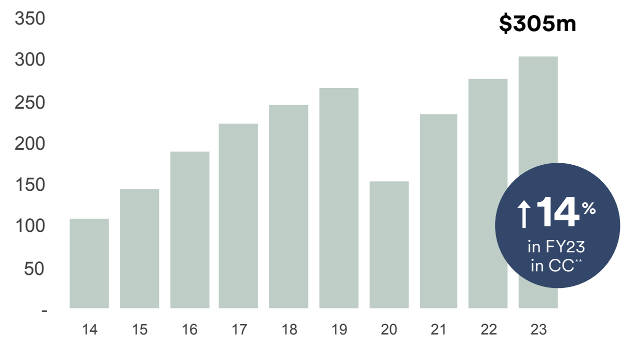
On-market share buyback

A progressive on-market share buyback program commenced in March 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.

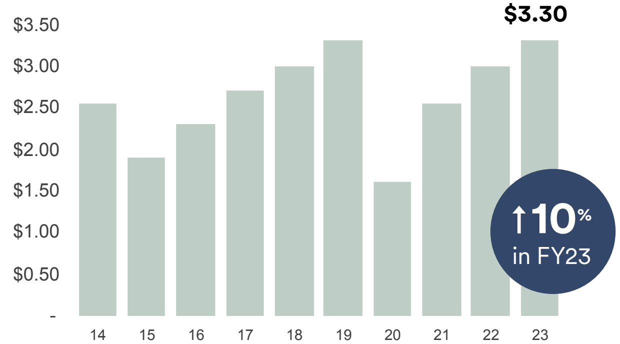
A progressive buyback program aligns with the interests of our shareholders by reducing shares on issue, providing gradual accretion in earnings per share and dividends per share over the long term.

In February the Board approved an initial 12 month buyback of up to $75 million in shares, with $30 million, or 40% this amount, bought by 30 June.

Underlying net profit
$ million*



Dividends
per share



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

Our new manufacturing facility in Chengdu, China.

Commencement of sound processor manufacturing in China

In February we achieved certification for the manufacture of our Nucleus® CP802 Sound Processor at the new Chengdu facility and have commenced supplying our Chinese operations. We expect to achieve implant approval within 18 months.

Creating value responsibly

We are supported by a large and complex supply chain of over 3,000 suppliers located in countries around the world. In FY23, we developed a Responsible Supply Chain Action Plan that aims to drive continuous improvement across the supply chain with a focus on human rights, labour practices, corporate governance, safety and well-being and environmental sustainability.

In FY23, we obtained ISO 27001 Information Security certification of our Connected Care products. This certification demonstrates that we manage information security according to global best practices and have invested in the people, processes and technology to protect our data. It provides customers with greater confidence that Cochlear can be a trusted partner for delivering innovative digital health solutions.

Proposed Oticon Medical acquisition

In June the UK Competition and Markets Authority (CMA) concluded that Cochlear's acquisition of Oticon Medical's cochlear implants business does not raise competition concerns and is permitted to proceed, subject to the CMA's approval of the related terms and conditions but prohibited Cochlear's acquisition of bone conduction implants business.

Cochlear and Demant will pursue a transfer of Oticon Medical's cochlear implant business to Cochlear at a zero headline purchase price, completion of which will ensure that Cochlear can provide ongoing support for Oticon Medical's current base of around 20,000 cochlear implant recipients.

As market leader, we will seek to ensure Oticon Medical's cochlear implant recipients can continue to access a lifetime of hearing solutions and look forward to welcoming them to the Cochlear family. 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 plan to develop and commercialise next generation sound processors and services that will enable customers to transition to and benefit from Cochlear's technology platform over time.

We were disappointed to be blocked from acquiring the acoustics business. We will still be able to offer Cochlear's technology to those customers into the future as our Baha sound processors are already compatible with Oticon Medical's Ponto acoustic implants.

Oticon Medical's cochlear implant business is expected to add around $10 million to annual revenue. The business is currently loss making. The priority post-closing of the transaction will be to determine a plan that returns the business to sustainable profitability as quickly as possible.

The transaction remains conditional on satisfaction of customary closing conditions and receipt of other competition approvals from the Australian Competition and Consumer Commission and the European Commission and is expected to close by December 2023. 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.

FY24 outlook

As we look to the future, we remain confident of the opportunity to grow our markets. There remains a significant, unmet and addressable clinical need for cochlear and acoustic implants that is expected to continue to underpin the long-term sustainable growth of the business. Our clear growth opportunity and strategy, combined with a strong balance sheet, mean we are well placed to create value for our stakeholders now, and over the long term.

For FY24, we expect to deliver underlying net profit of $355-375 million, a 16-23% increase on FY23, which is expected to be driven by a combination of revenue growth and improved net profit margin.

Cochlear implant trading conditions continue to be strong across most markets, with an improving trend in adult referral rates in many developed countries. At this stage, we expect solid market growth rates to drive high single digit growth in our cochlear implant units for FY24. We expect market share gains from FY23 to stabilise and for there to be fewer COVID-related backlog surgeries.

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

Acoustics growth rates are expected to be lower than FY23, with continuing growth from the rollout of the Osia® 2 System to be moderated by a smaller contribution from upgrades to the Baha® 6 Max Sound Processor.

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

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

Guidance is based on a 67 cent AUD/USD (67.5 cent average in FY23) and 61 cent AUD/EUR (64.4 cent average in FY23).

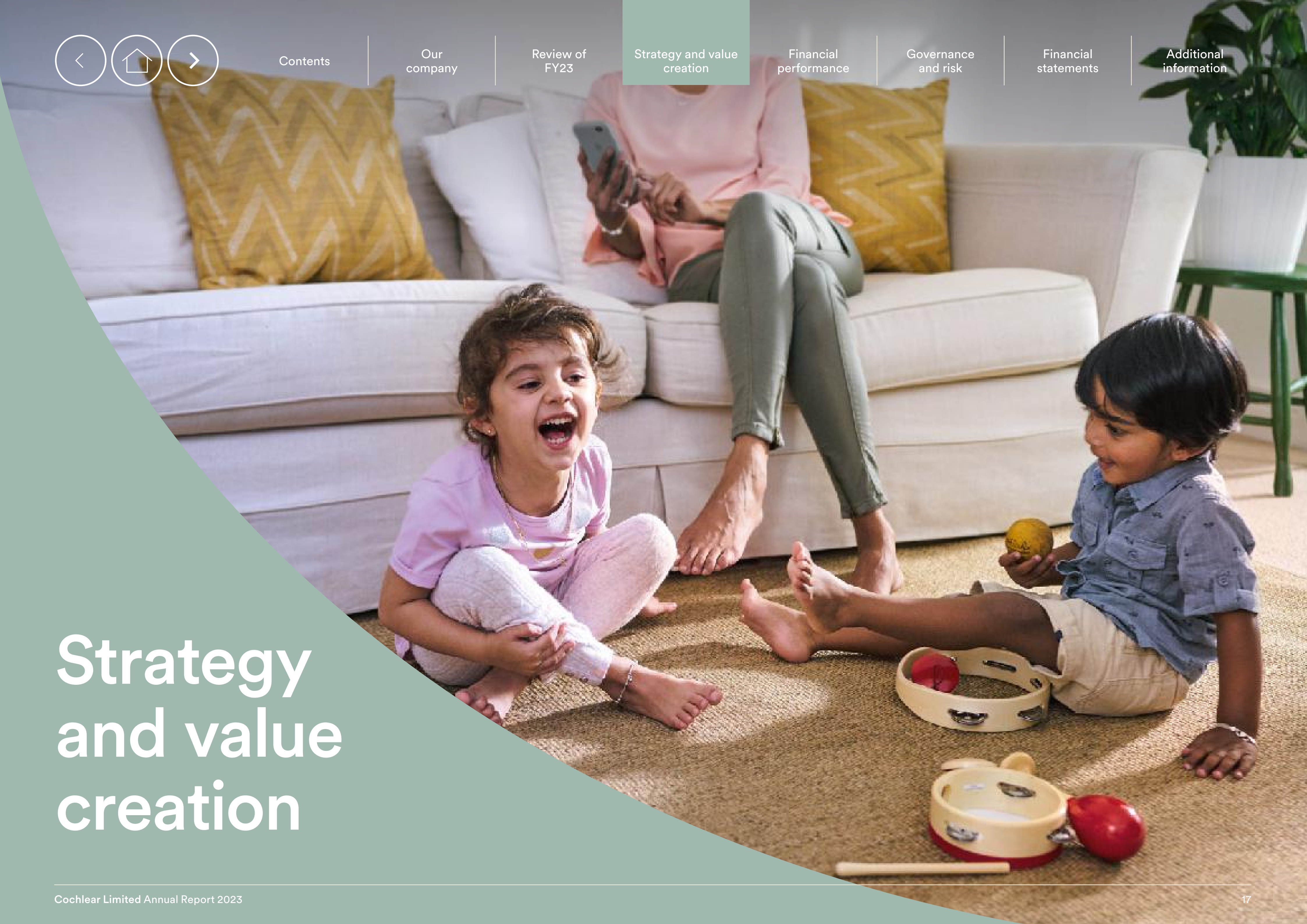
Capital expenditure is expected to be around $70-90 million.

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

Guidance does not factor in any impact from the proposed acquisition of Oticon Medical, which is targeted to complete by the end of December 2023. Integration costs, which would include the development of compatible next generation sound processors, are yet to be determined and are currently estimated to be $30-60 million.

Alison Deans
Chair

Dig Howitt
CEO & President



Strategy and value creation

Our strategy

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

At Cochlear, we are strongly connected to our mission to help people hear and be heard. It's the passion that drives the organisation and focuses the strategy.

With every hearing implant, we begin a lifelong journey with our recipients. We have a responsibility to be here to support that lifetime of hearing which means we need to deliver sustainable financial growth, benefiting all our stakeholders.

How we create value

Our strategy is focused on improving awareness of and access to implantable hearing solutions for people indicated for our products.

In helping more people to hear, we create value for our stakeholders by building a healthier and more productive society, providing a lifetime of hearing solutions for our recipients, having thriving employees and being environmentally responsible. Doing these things well should enable us to achieve sustainable financial returns over time.

The following pages provide a comprehensive review of our strategy, from our growth opportunities to our key priorities for creating value over the coming years.

We help more people to hear, creating value across five pillars	What we aim to achieve over the longer term
A healthier and more productive society Delivering societal benefit through improved health outcomes, educational cost savings and productivity gains.	**Grow the hearing implant market** Help at least 8% more people to hear each year with a cochlear or acoustic implant.
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.	**Retain market leadership** Develop market-leading technology and deliver a world-class customer experience to recipients and professional customers.
Thriving people An engaged, capable, high-performing and diverse workforce that delivers on our strategy and supports the creation of sustained value.	**A stronger organisation** Retain employee engagement levels at or above 80%.
Environmental responsibility Minimising the impact of our operations on the environment.	**Minimise environmental impact** Net-zero carbon emissions in our operations by 2030 and across our value chain by 2050.
Sustained value Maximising spending to grow the market while maintaining our competitive position. Ensuring we operate fairly, honestly and legally.	**Consistent and sustainable growth** Sustainable and responsible business practices, targeting growth in sales revenue of around 10% per annum and an 18% net profit margin.

Our strategy

There are many important elements to our strategy which aims to create value over the long term.

Key inputs to creating value

Central to how we deliver our strategy and create value are the key resources we draw on.

- Customers and 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.
- Our people: Our people's knowledge and expertise are central to how we deliver our strategy.
- Financial and environmental: Prudent management of financial capital and responsible production and consumption underpin the delivery of sustainable growth over time.

Our 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 are detailed on pages 20 to 21.

Key market segments

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.

On pages 22 to 23 we detail what we are doing to address our key market segments.

Strategic priorities

On page 24 we provide a snapshot of the strategic priorities that determine how we focus our time and resources to create value. At a high level we aim to:

- Grow the hearing implant market;
- Retain market leadership;
- Build a stronger organisation;
- Ensure we are environmentally responsible; and
- Deliver sustained value.

Stakeholder benefits

On page 25 we outline how our key stakeholders should benefit over time. Success for us is defined by creating value across all key stakeholders, which includes our customers, our people, our shareholders, the environment as well as society more broadly.

Value creation

On pages 26 to 61 we describe some of the key activities we are pursuing over the next five years to create value.

Governance and risk

On pages 68 to 76 we outline our approach to governance and risk. We believe high standards of corporate governance and transparency are fundamental to the sustainable, long-term success of the business. Our strong governance framework provides a solid structure for effective and responsible decision-making, and our risk management framework enables us to identify, assess and appropriately manage risks.

Our sustainability approach

Our sustainability approach is integrated into business strategy and operations. It reinforces our focus on creating positive social impact at individual and societal levels, while minimising our environmental impact. It helps guide our strategic priorities, manage risk and improve performance.

Our approach is informed by our materiality assessment and business priorities, as well as the Global Reporting Initiative framework, the United Nations Sustainable Development Goals and the United Nations Global Compact Principles.

The Board is responsible for overseeing the approval and integration of sustainability initiatives into business strategy and operations and approving sustainability policies and goals. Further details on our sustainability approach can be found in the Sustainability data appendix on page 154.

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.

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] yet fewer than 5% of the people that could benefit from an implantable hearing solution have received one.[2]

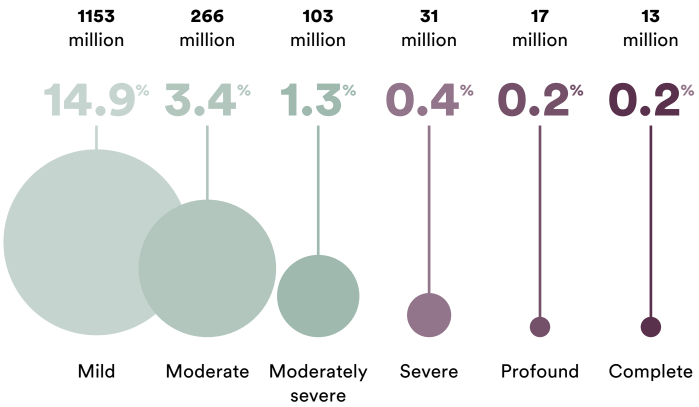
Cochlear implants are a cost-effective solution for all age groups

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.

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.

Over 60m people with severe or higher hearing loss



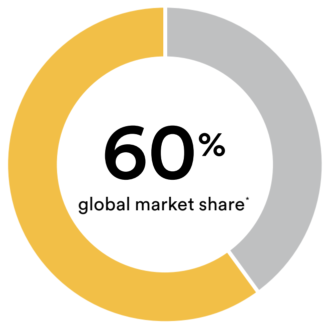
Globally 1.5 billion people live with hearing loss

Significant return on investment for healthcare systems investing in cochlear implants

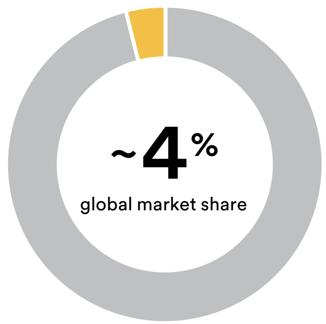
For a pre-lingual deaf child, the return to society is more than 13 times for every dollar spent on a cochlear implant solution based on the cost savings in education and improved productivity as an adult.[3]

The effective use of implants is cost-effective in adults and seniors with an estimated return on investment of 10:1.[4]

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



Cochlear implant market share



Hearing devices treating the severe or higher hearing loss segment

* Cochlear estimate

Growth opportunity

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.

Recent changes to reimbursement or indications

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

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

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

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

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

US:
the Centers for Medicare & Medicaid Services expanded coverage for cochlear implants to cover a broader spectrum of hearing loss

France:
reimbursement approved for Baha® sound processors

Good hearing is essential to healthy ageing

Hearing loss is particularly prevalent in people over the age of 60, with one in four suffering moderate or higher hearing loss.[5]

There is a growing understanding of the importance of properly treating hearing loss in this age group. It affects communication and is associated with cognitive decline, social isolation, anxiety and depression.[6]

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.[7]

Depression
Significant association between hearing impairment and moderate to severe depression.[8]

Falls
Higher risk of dizziness causing falling.[8]

Social isolation
Hearing loss linked to withdrawal from social interactions, which can have a significant impact on psychological well-being and physical health.[9]

Ability to work
Hearing loss can affect sufferers' ability to work or stay in the workforce.[10]

Loss of independence
Seniors with hearing loss less likely to be able to self-care.[8]

Key market segments

Our efforts are targeted at improving awareness, expanding access and building on the clinical evidence that demonstrates the effectiveness of our products across four key market segments.

Cochlear implants: Children in developed markets

Cochlear implantation has been established as the standard of care for newborns across the developed markets, with bilateral implants indicated across most countries as evidence supports the benefit of binaural hearing.

Addressable market*
~130,000 people
Current penetration
>80% under 3-year-old children

What we are 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 young 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 countries 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.

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%

What we are doing

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 address 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 a range of 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.

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

Key market segments

Cochlear implants: Children in emerging markets

Our 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%

What we are doing

Our emerging markets business has been growing rapidly as awareness of cochlear implants increases and wealth grows across many emerging economies. Most countries however remain very 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.

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%

What we are doing

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 markets where we have 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.

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

Strategic priorities

Our strategic priorities determine how we focus our time and resources to create value. Over the coming years we are focusing our efforts on delivering value across the following initiatives:

Grow the hearing implant market

- Strengthen the referral pathway for adults
- Develop the acoustic implant segment
- Broaden reimbursement and improve indications
- Expand access in emerging markets

A healthier and more productive society

Retain market leadership

- Advance the product and services pipeline, with annual R&D investment of ~12% of revenue
- Deliver our latest sound processor upgrade technology to existing recipients
- Strengthen our lead in customer service and support
- Maintain high standards of product quality, safety and reliability

A lifetime of hearing solutions

A stronger organisation

- Strengthen and nurture the organisational culture
- Attract, develop and retain talent
- Champion a culture of diversity and inclusion
- Support the wellness and safety of our teams

Thriving people

Minimise environmental impact

- Advance the implementation of initiatives to reduce our Scope 1, 2 and 3 carbon emissions
- Embed sustainability into product design, development and manufacturing
- Deliver a global approach to managing the environmental impacts of packaging and waste

Environmental responsibility

Consistent and sustainable growth

- Optimise growth investment
- Maintain a strong balance sheet
- Improve efficiency and agility
- Maintain high levels of corporate governance and an ethical and sustainable supply chain
- Vigilance around data security and privacy

Sustained value

Creating value for stakeholders

Value creation describes the impact we have on all our key stakeholders – our customers, our people, our shareholders as well as society more broadly. Successful execution 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
- Improved education and productivity opportunities
- Understanding of the link between good hearing and healthy ageing and the need to act

A healthier and more productive society

Our customers

- High quality and reliability
- Improving hearing outcomes and quality of life for new and existing recipients
- The right care is available at the right time and is easy to use
- Reduced cost to serve for professional customers
- Expanded product indications

A lifetime of hearing solutions

Our people

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

Thriving people

All stakeholders

- Climate change mitigation and resilience
- Conservation of natural resources
- Reduced pollution and waste
- Healthier communities

Environmental responsibility

Our shareholders

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

Sustained value

A healthier and more productive society

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

A healthier and 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.

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. Despite this, fewer than 5% of the people that could benefit from an implantable hearing solution have received one.[1]

Across developed markets, the largest unmet need is in the adults and seniors population. 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 cognitive decline, social isolation, anxiety and depression.[2]

The adults and seniors segment is however challenging to address 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.

Our efforts are therefore targeted at improving awareness, expanding access and building on the clinical evidence that demonstrates the effectiveness of our products, particularly in the adults and seniors segment.

Over the next few pages we discuss some of the key initiatives we are pursuing which aim to create value by increasing awareness and access to implantable hearing solutions.

Strategic priorities

Our target

Help at least 8% more people to hear each year with a cochlear or acoustic implant

Grow the hearing implant market

- Strengthen the referral pathway for adults
- Develop the acoustic implant segment
- Broaden reimbursement and improve indications
- Expand access in emerging markets

How payers and society more broadly benefit

- Appropriate funding for a cost-effective intervention
- Standard treatment pathway for implantable hearing devices for all age groups
- Improved education and productivity opportunities
- Understanding of the link between good hearing and healthy ageing and the need to act

Relevant UN Sustainable Development Goals

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:

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

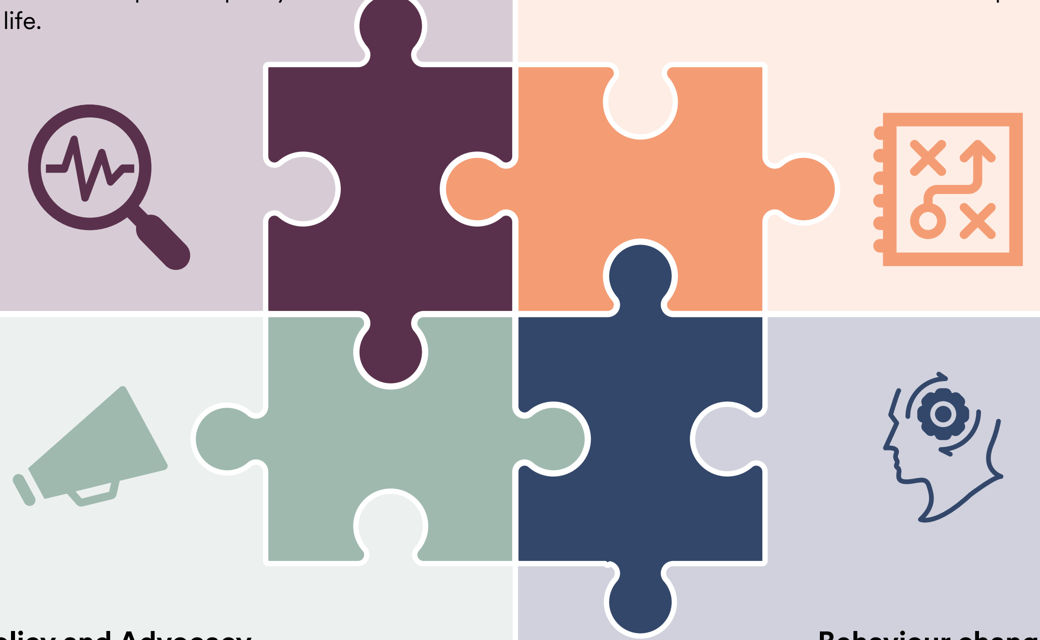
Key elements to developing a treatment pathway for adults

Creation of evidence

The continuous generation of robust clinical evidence that demonstrates improved clinical outcomes and patient quality of life.

Living Guidelines

An evidenced based set of treatment guidelines for adults who would benefit from a cochlear implant.



Policy and Advocacy

Engage key stakeholders to raise the awareness and the importance of hearing health in adults and, in particular, the role of cochlear implants.

Behaviour change

Move hearing professionals into willing and active referrers.

Building clinical 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.

Hearing loss has been found to be associated with accelerated cognitive decline and dementia. A study that tracked 639 adults for nearly 12 years found that mild hearing loss doubled dementia risk, moderate loss tripled risk and people with a severe hearing impairment were five times more likely to develop dementia.[4]

To investigate this further, our partners at Johns Hopkins University and their Cochlear Implant Center have been conducting a randomised control trial known as the Aging and Cognitive Health Evaluation in Elders (ACHIEVE) study.[5]

ACHIEVE is the first randomised trial to determine whether hearing loss treatment could delay cognitive decline and dementia in older adults with mild-to-moderate hearing impairment. The multi-year study is taking place at four centres in the US, with close to 1000 participants.

In July 2023, the study delivered its first results, finding that for a group of participants who were at a higher risk of cognitive decline, using hearing aids for three years slowed cognitive decline by 48%.[6] The results add to the growing evidence that support addressing modifiable risk factors for cognitive decline and dementia could be effective in reducing the future global burden of dementia.

The findings are a major advancement in understanding the broader impact of hearing loss and the need for adults, policy makers and health professionals to prioritise treatment of hearing loss. It not only helps people to hear but has the potential to reduce cognitive decline for adults at high risk.

An important first of its kind randomised controlled trial commenced in the UK in 2022. 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 use of hearing aids versus unilateral cochlear implants in 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 a hearing aid is better at improving speech understanding for adults with severe sensorineural hearing loss. Half of the trial participants will be randomly assigned with hearing aids, with the other half receiving a cochlear implant. The study is expected to take a few years to complete.

Building economic evidence

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.[7] 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.

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, cochlear implant recipients 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 provided the foundation for the development of formal clinical practice guidelines.[8]

In 2021, the World Health Organization (WHO) provided guidance for establishing evidence-based programs for hearing screening via the World Report on Hearing[9], aimed at improving the identification and treatment of hearing loss in target age-groups, including adults.

Over the coming years, we are supporting an international collaboration of hearing experts and cochlear implant recipients, known as the CI Task Force, and CIICA, the Cochlear Implant Community of Action, to lead the effort to develop Living Guidelines.

The Living Guidelines will establish evidence-based, best practice recommendations for cochlear implantation in eligible adults. The aim is to optimise care for hearing impaired adults, improve cochlear implant accessibility and standardise treatment globally.

The Living Guidelines are now being locally adapted and adopted into country-based guidelines, with plans for their roll out over the coming years.

> "There is a lack of person-centred and consistent referral pathways, which results in inconsistent diagnosis and delays in referral to cochlear implant specialists for candidates who may benefit."
> **Cochlear implant audiologist**

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. CIICA was formed in 2021 and is the first global cochlear implant user and family advocacy network that draws upon a network of over 480 individuals and 98 organisations from 60 countries across the globe.

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 to candidates, health care practitioners and society more broadly as well as lobbying for changes to funding.

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.

Health, social and economic benefits of cochlear implants

The economic benefits associated with cochlear implants extend beyond healthcare budgets with significant net economic gains reported from a broader societal perspective which includes health outcomes, educational costs and productivity gains.[7]

Expanding product indications

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.[10] 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 market access teams work with governments and payers to recognise the benefits of treating hearing loss so we can continue to increase access to our products.

Societal benefits of cochlear implants

A recent European study calculated the net societal benefit of cochlear implants by age group. It estimated that adults and seniors with progressive profound hearing loss with a cochlear implant had a positive net benefit of £275,000 and £76,000 respectively.[11]

Based on this study, Cochlear provided an estimated net societal benefit of more than $7 billion over the lifetime of the recipients implanted over just the past 12 months from improved health outcomes, educational cost savings and productivity gains.

By improving penetration rates in developed markets, particularly for adults and seniors which currently sits at around 3%, we can not only improve the quality of life of thousands of people each year but also further reduce the cost to society by billions of dollars.

Health, social and economic benefits of treating hearing loss

Children

Education

- Children with cochlear implants have a greater likelihood of acquiring oral language, integrating into regular schools and being able to experience sounds along with better speech skills[12]

Employment

- More likely to be in paid employment as adults[13]

Adults

Employment and productivity

- Reduces odds of unemployment or underemployment[14]
- Cochlear implantation associated with positive change in employment status[15] and increase in income compared to pre-implantation
- Stay in work for longer[16] – reduces premature retirement

Seniors

Health and community connection

- Untreated hearing loss is associated with lower quality of life and higher cost of care due to higher risk of cognitive decline, depression, social isolation, falls and loss of independence[17]

Improving access in emerging countries

We are continuing to identify opportunities in emerging economies to grow the hearing implant market, with a focus on improving rates of implantation in children.

Our emerging markets business has been growing rapidly as awareness of cochlear implants increases and wealth grows across many emerging economies. Most countries however remain very under-penetrated.

We support the development of localised training and education tools to raise awareness about hearing loss treatments among professionals and potential candidates.

We leverage our global collaborations with organisations including patient advocacy group and researchers, to help implement policy measures, such as newborn hearing screening, expand clinical services and improve reimbursement in these markets.

We are also focused on lowering the age of implantation for children as evidence supports improved hearing outcomes from early intervention, which in turn drives improved educational and employment outcomes. This approach is aligned with the Joint Committee on Infant Hearing[18] which recommends that all children with hearing loss should receive intervention by six months of age.

Asia Pacific Case Study

Thai delegation participating in the paediatric workshop at the Australian Hearing Hub (AHH).

Cochlear, in collaboration with our partners at the Australian Hearing Hub (AHH), is working with Australian Federal and State Governments to build capacity and capability in paediatric hearing health systems across the Asia Pacific region.

Through workshops facilitated by Australia's leading hearing health experts, the AHH is demonstrating the effectiveness of Australia's approach to paediatric hearing health – universal newborn hearing screening, diagnostics, referral pathway and rehabilitation programs – and creating a forum for knowledge sharing with clinicians and policy officials from around the region.

The NSW Government has provided support for workshops aimed at South East Asian countries. In June 2023 the National Foundation for Australia-China relations announced funding to support these workshops being held in China and in Sydney with a focus on newborn hearing screening.

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.

A lifetime of hearing solutions

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

Cochlear has been the global leader in implantable hearing solutions for over 40 years. Our investment in R&D aims to strengthen our leadership position through the development of market-leading technology that improves hearing outcomes and quality of life for our recipients.

We invest around 12% of sales revenue each year in R&D, with over $2.7 billion invested since listing, and we have a portfolio of more than 1,700 patent and patent applications worldwide. We have a global innovation network with over 550 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 Belgium focused on advanced innovation and an acoustics and software hub in Sweden.

We helped over 44,000 people hear with one – or two – of our cochlear or acoustic implants in FY23. We have the largest recipient base in the industry, with more than 750,000 implants helping around 650,000 people to hear.

With every hearing implant we begin a lifelong journey with our recipients. Our goal is to see our recipients continue to improve their hearing outcomes as our sound processor technology improves, while making aftercare simpler and more cost effective for them and the professionals that support them.

Over the next few pages we discuss our innovation priorities, our history of innovation, our growing portfolio of connected care solutions as well as our dedication to product quality and reliability.

Strategic priorities

Our target

Develop market-leading technology and deliver a world-class customer experience to recipients and professional customers.

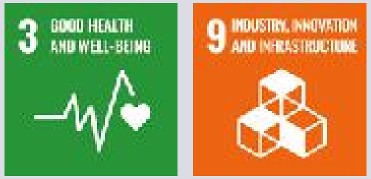
Retain market leadership

- Advance the product and services pipeline, with annual R&D investment of 12% of revenue
- Deliver our latest sound processor upgrade technology to existing recipients
- Strengthen our lead in customer service and support
- Maintain high standards of product quality, safety and reliability

How our customers benefit

- High quality and reliability
- Improving hearing outcomes and quality of life for new and existing recipients
- The right care is available at the right time and is easy to use
- Reduced cost to serve for professional customers
- Expanded product indications

Relevant UN Sustainable Development Goals



Innovation focus areas

Focus areas for R&D span four key areas – improving hearing outcomes, making life easier for customers, integrating our ecosystem of products and services with connected care solutions and exploring options to expand the portfolio.

Hearing outcomes

We have made significant improvements in hearing outcomes for recipients over the past 40 years. Key innovations like dual microphone technology, pre-processing and user control have improved the ability for recipients to hear in different sound environments. These innovations have also led to an expansion in indications for cochlear implants to now include people with a severe or higher hearing loss.

There is still more that can be done to improve hearing outcomes, to reduce listening effort and improve sound quality for recipients. Together with our research partners, we are investigating ways to better protect the structures of the inner ear and improve the electrode-neural interface, exploring drug/device combinations as well as new surgical strategies.

Lifestyle and ease-of-use

When it comes to lifestyle benefits, recipients want their sound processor to be smaller, lighter and smarter. Each sound processor generation has delivered on these expectations with today's sound processors integrated with smartphone technology, making life easier.

Ultimately, recipients would also like to be able to hear without an external sound processor. The development of totally implantable cochlear implant technology is a long-term development goal for Cochlear. It is an exciting part of our development plan and aims to provide both functional and aesthetic benefits with 24/7 hearing and invisible hearing. A commercially available product is not expected for quite a few years.

We are also innovating to deliver even better solutions for professional customers to help ensure patient outcomes are optimised and efficient. In the coming years the fitting process is expected to become simpler, more automated and AI-assisted.

Connected care

Connected care is our vision for hearing care – where Cochlear, the recipient and hearing care professionals work together to ensure the right care is available at the right time and is easy to use.

As the industry grows, connected care tools will increasingly provide additional capacity for our professional customers to manage growing volumes as well as provide convenience to professionals and recipients.

By creating a cohesive and interconnected care ecosystem we can ensure a positive customer experience with on-demand and secure access to comprehensive patient and product information to drive evidence-based decision making and delivery of high quality, accessible and patient-centred care.

Expanding the portfolio

Our innovation focus expands beyond cochlear implants, spanning acoustic implants as well as exploring potential opportunities to broaden the use of our technology outside of hearing loss.

A key priority has been to revolutionise our bone conduction technology and we achieved this in 2020 with the introduction of a transcutaneous bone conduction implant. The Cochlear™ Osia® 2 System represents a significant improvement in performance, aesthetics and quality of life for bone conduction patients and has great potential to see broader uptake and geographic expansion of our acoustic implant portfolio.

Looking beyond hearing loss, our innovation fund and research partnerships are investigating the potential for our technology to be applied into new treatment areas.

A history of meaningful innovation

Innovation matters. We are focused on delivering key technology improvements to our recipients. These innovations bring performance that matters, a true connection to life and a lifelong commitment to all of our recipients. The most advanced and reliable devices on the market are a result of over 40 years of dedication to innovation.

Cochlear™ hearing implants

Our R&D is focused on improving hearing outcomes and improving recipient quality of life. For more than 40 years Cochlear™ Nucleus® Implant innovations have delivered:

- Improved hearing outcomes, resulting in improved speech perception, particularly in noise. These improvements have led to a broadening of treatment indications from profound to moderate-severe hearing loss and also new indications such and hybrid and single-sided deafness;
- The world's thinnest cochlear implants, designed to be discreet when implanted and providing a natural appearance;
- The world's thinnest electrodes and only perimodiolar electrode designed to sit close to the hearing nerve, supporting cochlea health and delivering clearer sounds;
- Convenient and pain-free[1] MRI scans at 1.5 and 3.0 Tesla without the need for magnet removal; and
- Industry-leading reliability based on exceptional product design, extensive testing and world-class manufacturing that speaks not just to past performance but builds trust in future innovation.

Cochlear hearing implants

1985	1997	2000	2005	2009/2014	2019
Nucleus 22 World's first commercial multi-channel cochlear implant with 22 electrodes	**Nucleus 24** World's first cochlear implant with removable magnet for MRI safety	**Nucleus 24 Contour** Released with perimodiolar and straight electrodes	**Freedom** World's most implanted cochlear implant	**Nucleus Profile** World's thinnest implant, offers ease of use and faster surgery due to minimal drilling	**Nucleus Profile Plus** World's thinnest implant, MRI 1.5 and 3 T compatible with magnet in place

Cochlear™ Nucleus® sound processors

Over the past 40 years we have been improving the quality of life of our recipients with new sound processing technology that is compatible with both latest generation and older implants. Our sound processor innovation has delivered:

- Improved hearing outcomes with sound processing technology designed to provide clearer sound and reduced background noise;
- Connectivity to the world and people, by integrating with smartphone technology to allow direct streaming, control and monitoring with apps; and
- Lifestyle benefits, with each generation being smaller and lighter, easier to use and with longer battery life.

Cochlear Nucleus sound processors

2005

Freedom
Offered input processing technologies designed to mimic natural hearing and is the industry's first water resistant sound processor

2009

Nucleus 5
Was 36% smaller than the Freedom sound processor and offers an average hearing improvement of 30% in noisy environments. Includes AutoPhone, the industry's first automatic phone detection ability.

2016

Kanso
At launch, Kanso was the smallest and lightest off-the-ear sound processor available. Kanso was designed to help recipients hear with clarity using SmartSound® iQ with SCAN* and dual microphones, and is compatible with Cochlear™ True Wireless™ devices. Kanso is dust and splash resistant.

2022

Nucleus 8
Designed to make communicating with people easier, the Nucleus® 8 Sound Processor delivers our latest hearing technology. It senses changes in the environment and automatically adjusts listening settings.

Ready for next generation Bluetooth® LE Audio technology and able to connect directly to what's being broadcast at public venues such as airports, conference centres and theatres supporting Bluetooth Auracast™.

reddot design award

Winner of the prestigious Red Dot Design Award for Nucleus 5 and Nucleus 8.

Connected care solutions providing convenience and confidence

Connected care is our vision for hearing care – where Cochlear, the recipient and hearing care professionals work together to ensure the right care is available at the right time and is easy to use.

Our connected care solutions comprise a range of digital health solutions that provide new ways to deliver convenient, evidence-based care for patients at every stage of their journey, spanning surgical care, self-managed care, in-clinic care and remote care.

Surgical care

Surgical care solutions enhance patient outcomes through intraoperative tools and insights that improve the surgical experience.

The Nucleus® SmartNav System supports surgeons in optimising electrode placement during cochlear implant surgery. It provides real-time, actionable intraoperative insights that increase confidence in device placement to help surgeons optimise outcomes and postoperative clinical performance.

In-clinic care

In-clinic care solutions streamline patient management and care, giving clinicians the time and flexibility to optimise every appointment.

Our comprehensive range of fitting software uses our extensive fitting and performance data to inform and optimise programming. Our software is created using best-in-class design principles and harnesses over 40 years of experience and input from thousands of clinicians worldwide[2] to help drive consistent outcomes, clinic efficiency and personalised care.

Our fitting software always keeps the patient at the centre of care, promoting patient engagement and facilitating more effective tracking of progress between appointments.[3]

A recent innovation is the secure and seamless cloud transfer of a patient's surgical data from the operating room to the fitting clinic via Nucleus SmartNav. This transfer ensures that hearing health professionals can always commence a patient's first post-surgical appointment with all the information they need for a successful first fitting.

Remote care

Remote care solutions allow clinicians to monitor patients and deliver quality care without a trip to the clinic.

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 they're travelling.

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.

By offering app-based Remote care solutions, we are meeting a recipient need and making care more convenient. We assist our professional partners to increase clinic efficiency, providing greater flexibility and allowing clinicians to see more patients, including new candidates. And by removing the need to travel to and from the clinic.

Over the longer-term, remote care solutions have the potential to expand access to those who live in remote areas or otherwise don't have access to a clinic.

Self-managed care

Cochlear™ Self-managed care solutions empower patients to actively manage their hearing experience in partnership with their clinician through their smartphone.

Self-managed care gives patients the option to proactively manage their device settings as they move through their day and encounter different hearing and communication conditions. Our range of mobile apps provide patients with the tools to manage their everyday situational hearing – whether they are adjusting their volume settings or using device features such as ForwardFocus.

With Self-managed care, patients also have access to interactive tools to help them practice and improve their listening and communication skills. These app-based solutions are designed to give patients the confidence to participate in the conversations and moments that matter most.

Leading on product quality and reliability

When choosing a cochlear implant, the reassurance of high-quality products that support a lifetime of hearing is key. Our market-leading products are the result of our world-class manufacturing process and meet stringent, internationally recognised standards.

As the global leader in implantable hearing, with more than 750,000 devices provided, we take our responsibility to report on the reliability of our products seriously. This is why we report with full transparency, in accordance with International Standard ISO 5841-2[4], the reporting principles outlined in the European Consensus Statement on Cochlear Implant Failures and Explantations[5] and ANSI/AAMI CI86 – Cochlear implant systems: Requirements for safety, functional verification, labelling and reliability reporting.[6]

Cochlear's implants are the most reliable[7] in the industry. Our products are approved by regulators around the world for the treatment of moderate to profound hearing loss after undergoing safety and efficacy reviews.

Implant reliability is important for successful patient outcomes, with longevity an important factor when choosing an implant, particularly for a child.

Our latest implant, the Nucleus® Profile Plus Series implant, has a combined cumulative survival percentage (CSP) of 99.87% within four years. Our Nucleus CI24RE Series implant, the world's most widely used cochlear implant, with more than 200,000 registered devices, has a combined CSP of 98.92% after being on the market for 18 years.

Each year we publish our product reliability data in the Cochlear™ Nucleus® System Reliability Report, which can be found on the website.

Our world-class manufacturing processes meet stringent, internationally recognised standards. Our Quality Management System (QMS) provides the framework, processes and procedures for ensuring:

- safety and efficacy of our products;
- compliance with regulatory requirements; and
- product design, manufacture and marketing consistently meet customer and regulatory requirements.

Our QMS plays an integral part in ensuring our product safety and reliability. During the design process, products go through extensive testing both internally and externally to ensure they are designed to meet all applicable standards for intended use.

Our products are manufactured to ensure they meet our design specifications. We then continue to monitor the performance of our products throughout their lifetime via an extensive post market surveillance process. Information gathered throughout the product lifecycle is used to improve current and future products.

Our QMS is also audited annually by regulatory agencies to ensure compliance with applicable regulations and standards for the countries where we market our products.

The Chief Technology Officer has executive accountability for Quality and Regulatory Affairs and, along with the Executive team, oversees the performance of the QMS to evaluate its suitability, effectiveness and ensure it continues to improve.

Undertaking pre-clinical and clinical trials to study the efficacy of new technology

Cochlear undertakes pre-clinical and clinical trials, often in conjunction with leading universities and research partners, to study the safety and efficacy of new technology in accordance with relevant standards including ISO 14155: Clinical investigation of medical devices for human subjects – Good clinical practice.

We currently have 35 active sponsored studies in the areas of technology development and lifecycle product support. We make outcomes from clinical studies available to payers, regulators, health technology assessment bodies and other stakeholders via summary reports on clinical trial public registry platforms and as published peer-reviewed manuscripts.

In FY23, there were 18 peer-reviewed publications arising from Cochlear-sponsored studies.

Collaborating to advance hearing science and research

As a market leader we strive to help advance hearing health science and research. By working with other leaders in the sector, we can harness our collective expertise, skills, and imagination to achieve more for our customers and for the community.

Strategic research partnerships and global collaborations

Cochlear has established research collaborations with leading universities and research organisations around the world including strategic research partnerships with Macquarie University in Australia and Johns Hopkins University in the US. These collaborations build on the research expertise of the institutions, as well as their broader networks and ecosystems, to drive innovation in hearing technology and public health.

Macquarie University and the Australian Hearing Hub

Australian Hearing Hub and Google collaboration partners.

In early 2023 we renewed our strategic research partnership with Macquarie University for a further five years strengthening the platform for co-funded multi-year and multi-disciplinary research projects with a focus on advancing clinical practice, education and public policy.

Both Cochlear and Macquarie University are founding members of the Australian Hearing Hub (AHH) which brings together leading researchers, clinicians, service providers and industry with the vision of being the world leading community transforming hearing and communication. Key collaborative AHH research projects include Hearing Impairment in Adults: A Longitudinal Outcomes Study (HALOS) and the Cochlear Implant Neurotrophin Gene Therapy Clinical Trial.

In March 2023 the AHH announced a new partnership with Google to explore new applications of artificial intelligence and machine learning hearing solutions as part of Google's $1 billion Digital Future Initiative.

Johns Hopkins University and the Cochlear Center for Hearing and Public Health

In 2018 we Cochlear pledged US$10 million over 10 years to establish the Cochlear Center for Hearing and Public Health at Johns Hopkins Bloomberg School of Public Health. Under the leadership of Professor Frank Lin, the Center focuses on hearing loss as a global public health priority, with an emphasis on the public health impacts of hearing loss in senior adults.

Priority research areas include the contribution of hearing loss to the risk of cognitive decline and dementia in older adults and the epidemiology of hearing loss prevalence and risk factors.

Growing connectivity and engagement with our customers

We invest to provide our customers with a world-class customer experience with increased connectivity and engagement for recipients and products and services to improve convenience and confidence for our professional customers.

Cochlear Family

Cochlear Family is our recipient awareness and education membership program, providing information about the hearing journey and support in living with hearing implant technology for recipients and their families and carers.

It aims to help upskill recipients and their carers to live a more confident life with hearing technology via proactive communications and hosted events.

Cochlear Family is the world's largest community of hearing implant recipients and is available in 70 countries. Over 54% of all new customers become Family members and in FY23 membership increased to 296,000 people, up 14%.

Cochlear Volunteer Community

The Cochlear Volunteer Community is a network of highly engaged, committed recipients and carers who are motivated to help others learn about and successfully live with implantable hearing devices.

There are currently over 1,400 official Cochlear Volunteers throughout 24 countries, who have been matched over 2,400 times in FY23 with people considering whether Cochlear technology is right for them or their loved one.

Volunteers provide candidates and recipients with relevant information about the benefits of hearing implants and sound processors and opportunities to maximise the benefits of devices in daily life.

We work closely with our volunteers to provide them with the knowledge and skills they need to be successful in supporting others along their hearing journey.

Professional learning programs

In FY23 our European-based professional education learning program provided in-person, virtual and hybrid trainings for ENT surgeons, audiologists and oral rehabilitation therapists across Europe. We held 166 events, reaching over 3,800 professionals.

Our Cochlear Clinical Skills Institutes (CCSI) in Sydney and Chengdu conducted surgical and clinical training for professionals in the hearing implant industry. The training attracted nearly 100 surgeons from the Asia Pacific region.

We also delivered a diverse range of face-to-face and online training events, benefiting over 11,000 professionals throughout FY23.

Professional training.

Thriving people

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

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 around 4,800 people across the globe. Their knowledge, expertise, passion and focus on delivering excellence is key to achieving future success.

Cochlear has a rich history, helping people to hear for over 40 years, underpinned by a strong culture of innovation and a focus on our customers.

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.

Diversity, equity and inclusion continue to be key priorities as they are fundamental to our success as an innovation leader. Over the past few years, we have also focused 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.

Over the next few pages we discuss some of the key initiatives we are pursuing which aim to create value by investing in our people and culture.

Strategic priorities

Our targets

Retain employee engagement levels at or above 80%

A stronger organisation

- Strengthen and nurture the organisational culture
- Attract, develop and retain talent
- Champion a culture of diversity and inclusion
- Support the wellness and safety of our teams

How our people benefit

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

Relevant UN Sustainable Development Goals

Ways of working together

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

Our HEAR behaviours are our ways of working, providing a framework to operate. Together with the Global Code of Conduct, the HEAR Behaviours provide a set of guiding principles that shape our culture and define how employees should behave and make decisions.

When setting our individual and department goals each year, employees and managers ensure that the goals incorporate the expected outcome as well as the behaviours we demonstrate to achieve the outcome.

Each year we review the micro behaviours associated with each pillar and adapt where either the strategy or the behaviour needs evolving. This year, Aspire to Win micro behaviours have been adapted to reflect a greater focus on prioritisation, taking risks, experimenting and taking initiative – key areas we want to further develop as we enter the next phase of growth.

H

Hear the customer

Put the customer at the centre of all that we do

- I see what we are doing through the customers' eyes
- I factor in what the customer needs in my decision making
- I bring the voice of the customer into our conversations

E

Embrace change and innovate

Think differently to change and grow

- I simplify complex information to make it easy to understand
- I look for the simplest solution without adding complexity in the future
- I change my mind when persuaded by a better idea

A

Aspire to win

Inspire each other to achieve

- I push the team to take actions toward our stretch goals
- I prioritise my actions to get things done
- I raise difficult and important issues
- I take calculated risks to achieve our goals
- I take action without being told what to do

R

Remove boundaries

Unite and act as one

- I challenge others' opinions in a constructive way
- I speak supportively of decisions made by others outside my immediate team
- I seek and use input from other parts of the business to make decisions
- I put the interests of the organisation ahead of my own or my team

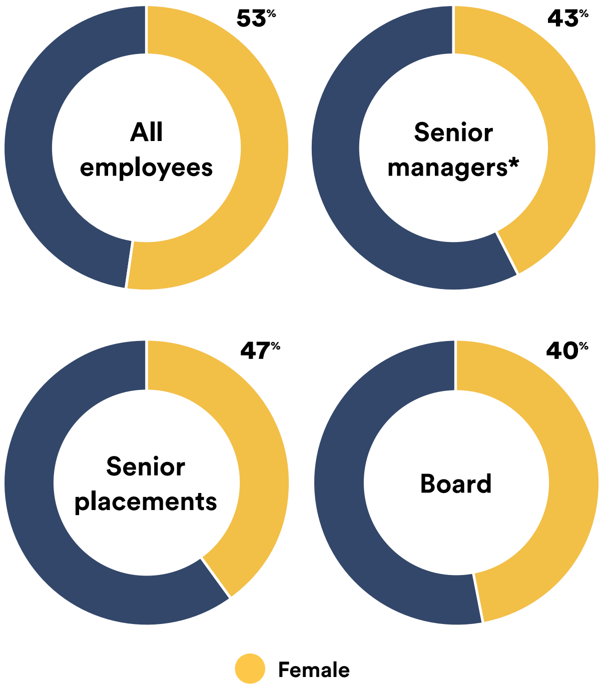
Championing a culture of diversity and inclusion

A diverse, equitable and inclusive organisation improves employee engagement, our performance and productivity as well as customer engagement.

Our workforce

We are proud of our diverse and capable global workforce. Our people are based in more than 50 countries around the world with 53% females.

Targeting to maintain at least 40% female representation at senior management and Board level



More information about our workforce is in the Sustainability data appendix on page 154 and the 2023 Corporate Governance Statement, available on the Investors section of the website.

Our diversity and inclusion strategy

Our diversity and inclusion (D&I) strategy is aimed at creating an environment where our people feel safe, valued, included and empowered to do their best work.

The strategy is built around target setting and policies, hiring and development, training and communication and engagement.

Targets and policies

Since implementing our Diversity and inclusion policy in 2021, our focus has been on gender diversity. We introduced gender targets for our Board and senior leaders, reaching these targets by FY22. In FY23, 43% of senior managers were female.

We achieved our Board target of 30% female representation in FY21, with females now comprising 40% of our Board.

To ensure we maintain and embed these achievements, we are continuing to improve the gender diversity of our succession pipelines to all senior leadership roles.

Flexible work is an important part of our employee value proposition and is a key driver of attracting and retaining talent. Our Global Flex@Cochlear policy sets expectations around flexibility with 87% of our employees saying their manager provides them with the flexibility to manage their work and personal responsibilities.

Our commitment to diversity, equity and inclusion is enshrined in our Global Code of Conduct which states that our people have a responsibility to make our workplace fair and inclusive and we do not tolerate any form of discrimination and harassment.

Hiring and development

In FY23 we continued to invest in our Hiring Manager Learning Program 'Hiring to win', which is focused on the removal of unconscious bias from our selection processes.

We have seen some pleasing results from our work in this area with females comprising 47% of all senior placements made during the year.

We continuously monitor outcomes and metrics to ensure fairness and equity in our talent management activities, such as recruitment practices and performance and remuneration review outcomes, while identifying opportunities for further improvement.

* For the purposes of this Statement, senior managers are defined as all managers in Bands 1, 2 and 3; the three most senior levels with Band 1 being the Executive team.

Career Trackers internship program.

2023 Sydney WorldPride event at our headquarters in Australia.

An important element of our talent strategy is to build our relationships with school and university programs so that we continue to grow a diverse pipeline of entry-level talent. Females comprised 62% of our 2022/2023 Summer Student Intern Program and 50% of our 2023 Graduate Program intake.

In Australia, we sponsor students as part of the Cadetship to Career initiative jointly developed by The Smith Family and the Business Council of Australia. This initiative provides students from disadvantaged backgrounds with paid work experience to help them transition from study to employment and explore future career options.

In August we became a CareerTrackers partner with the aim of offering more, high quality internship opportunities to Australian First Nations students. This initiative aligns with our Reconciliation Action Plan (RAP) commitment to explore opportunities to promote STEM (Science, Technology, Engineering and Mathematics) development and career pathways for First Nations peoples.

Training

We continue to upskill our people to support our D&I principles and goals. By the end of FY23 80% of all leaders globally have completed our Inclusive Leadership program. In addition, we launched an Embrace Equity online learning pathway for all employees to build greater awareness of equity and why it is important. Other key learning programs aimed at building an inclusive workplace include Respectful Workplace training, Mental Health for Managers and Smarter Meetings.

In June we launched an online First Nations Knowledge Building and Engagement course as part of our efforts to increase cultural safety and understanding under our RAP. The course is available to our Australian based people and aims to provide our people with a foundational understanding of First Nations history, culture and people.

Communication and engagement

Our culture work and goals are closely integrated with our D&I strategy. The work of our 100 Culture Champions has continued to focus on building a more inclusive workplace and environment where we ensure people are heard and differences are valued.

The Culture Champions introduced an organisation wide experiment entitled 'Challenger in the Room' designed to encourage behaviours of raising difficult issues and encouraging diverse perspectives. This experiment required people to apply the skills learnt through the Culture Conversations series.

Over the past year, we took steps to acknowledge and celebrate a broader range of significant events or dates to better reflect the diversity of our people and the communities they live in, including celebrating World Pride Day with an event featuring personal stories from leaders from across the globe and their experience as an LQBTQIA+ employee.

In Australia we celebrated National Reconciliation Week, a time for all Australians to reflect on First Nations' peoples, learn about our shared histories, cultures and achievements and explore how we can contribute to reconciliation. We ran online events providing a platform to encourage more people to join us in this important journey.

Attracting, developing and retaining talent

We strive to attract and retain passionate and highly skilled professionals.

We have continued to build on our efforts to engage and retain our talent, focussing on career progression and development, pay and recognition and ensuring all our employees feel a sense of belonging, regardless of their background and experiences.

As a result, we have seen a significant number of employees taking on a new career development opportunity with 30% of open roles filled by employees.

In FY23, overall employee engagement remained strong at 80%, with 91% of our employees completing our global engagement survey.

We are particularly pleased to see contribution to the satisfaction of our customers (94%), employee understanding of their contribution to strategy (93%) and pride in the organisation (92%) remain our strongest areas, a result that can be attributed to the power of our mission and our strong commitment to our customers.

We have also continued to see a strong uptake in our all-employee share purchase plan, with 47% of eligible employees participating in the second year of the plan offering.

Our retention levels remain strong with our global annualised voluntary turnover for FY23 of 8%, almost three points below the previous year.

We have made a significant global investment in efforts to prepare for our new People and Culture operating model with the new IT platform launching in September 2023. The new operating model is designed to support our organisation as it grows and will enable greater empowerment of our leaders and greater opportunities for our people to share their talents and skills and build their career.

Supporting the wellness and safety of our teams

We are committed to providing safe, healthy and secure workplaces for our employees and all others in our workplaces.

Our care and commitment to safe and healthy working environments allows our people to thrive and deliver their best work.

In FY23 our Total Recordable Injury Frequency Rate was 3.3, having increased slightly from FY22. Our main risks relate to the development of musculoskeletal disorders, which comprise 21% of all injuries sustained in our operations.

We continue to focus on the prevention of musculoskeletal disorders through early intervention, evidenced based exercise programs and increased frequency of rotation through our operations to further lower exposure times to operations of a repetitive nature.

We are taking a holistic approach to the wellness of our people through maintaining both a physically safe and mentally healthy work environment.

Our confidential Employee Assistance Program is available to all employees and their immediate family members ensuring comprehensive assistance is available to address their mental health needs.

To help our managers recognise and fully support their teams' mental health we have implemented mandatory 'Mental Health for Managers' training and are upskilling the workforce through the provision of Mental Health First Aid training.

We have also commenced a comprehensive review of our existing psychosocial risk assessment, with a particular focus on sexual harassment. In FY24 we will continue our work in this critical area to ensure that we take a holistic and robust approach towards the prevention of sexual harassment in the workplace.

Environmental responsibility

To be a sustainable business, we aim to minimise the impact of our operations on the environment.

Environmental responsibility

We are implementing initiatives to promote the sustainable use of natural resources, reduce our environmental footprint and help tackle climate change.

We are implementing initiatives and actions to meet our science-based carbon emissions reduction targets. Our short-term focus is on expanding renewable energy use at our sites and reducing our Scope 1 and 2 emissions. Additionally, we are reducing our business flight related carbon emissions and mapping our other Scope 3 emissions in line with our net-zero strategy.

Sustainability is integrated into our operations, processes and procedures. We consider the environmental impact of our product development, manufacturing, packaging, and logistics. We are committed to utilising natural resources in a responsible and efficient manner.

Addressing climate-related risks is part of our risk management strategy. To enhance our approach, we are progressively implementing climate-related scenario analysis in line with the Task Force on Climate-Related Financial Disclosures (TCFD) recommendations.

This section outlines the initiatives and processes we have established to drive our progress towards our targets.

Strategic priorities

Our target

Net-zero carbon emissions in our operations by 2030 and across our value chain by 2050

Minimise environmental impact

- Advance the implementation of initiatives to reduce our Scope 1, 2 and 3 carbon emissions
- Embed sustainability into product design, development and manufacturing
- Deliver a global approach to managing the environmental impacts of packaging

How all stakeholders benefit

- Climate resilience
- Efficient use of natural resources

Relevant UN Sustainable Development Goals

Our pathway to net-zero emissions

We are committed to taking an active role in the global effort to tackle climate change and are using climate science to better understand our impacts and define our strategy.

In FY22 we set short, medium and long-term Greenhouse Gases (GHG) emission reduction targets. Our targets are in line with the Science Based Target Initiative (SBTi) methodology, consistent with the reductions required to limit warming to 1.5 degrees above pre-industrial levels.

Our emission reduction targets

2025	• 25% reduction in our absolute Scope 1 and Scope 2 emissions • 50% reduction in business flight emissions
2030	• Net-zero emissions in our operations (Scope 1 and 2)
2050	• Net-zero emissions across our value chain (Scope 1, 2 and 3)

Electric van at our Macquarie site in Australia.

Our climate-related strategy

Scope 1 and 2 emissions

Implementing efficiency initiatives is a key element of our strategy, and we are on target to meet our Scope 1 and 2 emission reduction targets.

We have continued to expand the use of renewable energy at our key sites and reached an overall rate of 70% renewable electricity globally.

Our manufacturing facilities account for 70% of the total energy consumption. We have made significant progress in reducing Scope 1 and 2 emissions by 68% from our FY19 baseline by increasing renewable energy use in our manufacturing sites.

In FY23, we reached 96% renewable energy at our manufacturing facilities, using 100% renewable energy in five of our six facilities. Due to restrictions in the availability of renewable energy at the remaining site, we were not able to obtain 100% renewable energy during FY23. We expect to be able to move to 100% renewable energy in FY24.

We are also implementing other initiatives to further reduce our fossil fuel use and energy consumption. For example, we have replaced the petrol van used to transport production components, consumables and finished goods between our Sydney facilities with an electric van, and we have renovated the air conditioning system at our Macquarie University site, representing annual savings of around 360 MWh, almost 8% of the annual consumption.

Our historical emissions and energy use data are available in the Sustainability data appendix on page 158.

Scope 3 emissions

We are making steady progress toward accomplishing our business flight-related targets. In FY21, we set a target to reduce our business flights per full-time equivalent employee by 20% and our flight-related emissions by 50% by 2025 (from a FY19 baseline).

In FY23 we reduced our flight related emissions by 91%. We achieved this by reducing business flights per full time equivalent employee by 47% from our FY19 baseline and purchasing offsets for approximately 80% of our remaining business flights.

For other Scope 3 emissions, we have initiated a complete inventory in line with the GHG Protocol. The initial result indicates that 10 out of the 15 GHG Protocol categories apply to our business. We intend to disclose the results of this process in our next Annual Report and will also develop a reduction plan in line with the SBTi.

Managing our climate-related sustainability risks

Our enterprise risk management approach includes assessment of our physical climate-related risks (riverine and urban flood, extreme heat, cyclones and wildfires). It also includes the assessment of potential climate-related risks to critical production-related suppliers and critical business infrastructure providers.

We have considered the risks and opportunities of transitioning to a low carbon economy. Although we are not a carbon-intensive industry, we assess our supply chain to identify relevant climate impacts so that ambitions to decarbonise are aligned.

Metrics and targets

As we further align our approach with the TCFD and the International Sustainability Standards Board Sustainability Disclosure Standards, we intend to extend our climate-related scenario analysis in FY24 to provide a more detailed assessment of risks and opportunities associated with climate change and the transition to a low carbon economy.

The main metrics used to assess and manage climate-related risks and opportunities are:

- Scope 1, 2 and 3 GHG emissions. Please refer to the Sustainability data appendix on page 154 for more details;
- Location of relevant facilities; and
- Our targets to reach net-zero emissions, in line with the SBTi.

Governance

The Audit and Risk Committee assists the Board to discharge its responsibilities in monitoring sustainability performance and overseeing the implementation of sustainability initiatives and commitments and reviewing the assessment, management and response to these risks and opportunities. Please refer to the Governance and risk section on page 68 for more details.

US environment champions

The US team has established a voluntary environmental working group aimed at advancing our global environment objectives by implementing local initiatives focused on employee commuting, energy efficiency, waste management and promoting sustainable lifestyles. This initiative is endorsed by the US management team and supported by the Global Sustainability Team.

The working group comprises 29 members from different parts of the business including sales, clinical, finance, product management, communication, warehouse, clinics, field staff and people and culture.

Initiatives delivered in FY23 include an education program about waste and recycling and 'Bike to Work' day, raising awareness about sustainable transportation.

Enhancing environmental management and compliance

We continue to integrate environmental considerations into our business, focused on minimising our impact, complying with regulation and improving efficiency.

Sustainable design and packaging

We incorporate a sustainability mindset into our product development, packaging and logistic processes. Multidisciplinary teams are working on increasing the environmental efficiency of our products, aligned with the medical device regulations focused on protecting the safety of patients.

As part of our product design process, we comply with the International Electrotechnical Commission Standard - IEC60601-1-9:2020: Requirements for environmentally conscious design, focused on minimising the environmental impact of each stage of a product's life cycle.

In light of growing environmental regulation related to packaging, we are exploring initiatives to minimise the environmental impact of our packaging while still meeting medical device safety standards. For example, we use recyclable PaperFoam and biodegradable packaging across all our products.

By replacing plastic bubble-wrap with a paper filler in shipping boxes, we have reduced the use of plastic shipped from Australian sites to our regional distribution centres by 80%.

We also transport batteries required for our products. With the implementation of shipping optimisation actions in FY23, we have reduced the distance travelled by air for these batteries by 69%.

Life Cycle Assessment

We have initiated a systematic Life Cycle Assessment (LCA) of the Cochlear™ Nucleus® 8 Sound Processor using the SimaPro modelling software, a leading science-based methodology.

The LCA measures environmental impacts during all stages of the product's life. This will help us define a baseline for sustainable product innovation and enable us to make better decisions throughout the life cycle of our products in areas such as:

- Waste management;
- Environmental impact of packaging;
- Material preferences for products and packaging; and
- Carbon footprint.

Environmental management

Our Environmental Policy sets out our commitment to managing and reducing our impact on the global environment. Working closely with our partners and suppliers, we monitor our environmental performance across our operations and across the value chain.

Resource efficiency

We are identifying ways to improve resource efficiency, reduce waste and drive greater circularity into our operations.

We continuously identify ways to reduce waste going to landfill by effective sorting of recyclable materials and waste avoidance. In FY23 we reused 250 square meters of our carpet and refurbished tables and white boards in the renovation of our Lane Cove office.

Our current production processes use limited quantities of water, with the majority consumed through staff kitchens and bathrooms. We encourage responsible water consumption and continuously identify appropriate water-saving initiatives.

Environmental compliance

We comply with the European Union (EU) Restriction of Hazardous Substances (RoHS) Directive 2002/95/ EC, which governs the use of heavy metals and halogenated compounds in electrical and electronic equipment.

We also comply with the EU's regulation on the Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH) for the safe manufacture and use of chemical substances throughout their lifecycle. In addition, we comply with the Directive 2012/19/EU aiming to prevent and reduce waste from electrical and electronic equipment.

In addressing packaging and packaging waste, we comply with the European Parliament and Council Directive 94/62/ EC aimed at preventing the production of packaging waste, reusing packaging, recycling and other forms of recovering packaging waste and, hence, at reducing the final disposal of such waste.

Sustained value

Maximising spending to grow the market while maintaining our competitive position. Ensuring we operate fairly, honestly and legally.

Sustained value

Financial discipline and commitment to high standards of corporate governance and transparency are central to the creation, maintenance and enhancement of long-term sustainable value.

Cochlear has a long history of delivering growing sales revenue, profits and dividends. This track record can be attributed to our unwavering dedication to our core competency, the development of implantable hearing solutions, and has been supported by a multi-decade philosophy of investing to grow, disciplined management of capital and high standards of corporate governance.

As a business we plan and invest over long timeframes. Our R&D investment horizons span over 10 years, and our ambition to improve the uptake of cochlear and acoustic implants requires long-term planning and consistent investment over many years.

Over the coming years we expect to continue to invest consistently to improve the adoption of our products. We see a significant opportunity to grow by strengthening the clinical pathway for adults and seniors through improving awareness and access for those who would benefit from a cochlear implant. Improving these pathways takes time, requires us to trial novel approaches and adapt quickly as we learn. We need to constantly challenge ourselves on how best to prioritise and optimise this growth investment and measure progress.

We have set high level targets to guide our investment, aiming to balance financial objectives and expectations with the organisation's capacity to grow at a manageable pace. Over the coming years we aim to grow sales revenue at around 10% per annum, while targeting an investment of 12% of sales revenue in R&D and an underlying net profit margin of 18%. While the outcomes for any individual year may vary as a result of prevailing trading conditions, these guiderails provide us with the ability to grow our investment in market growth activities.

We are also cognisant that to be successful over the long term, we must create value responsibly. We recognise that high standards of corporate governance and transparency are important for the creation, maintenance and enhancement of long-term sustainable value.

Over the coming pages we discuss some of the key elements of our financial and governance objectives aimed at creating sustained value.

Strategic priorities

Our target

Sustainable and responsible business practices, targeting growth in sales revenue of around 10% per annum and an 18% net profit margin

Consistent and sustainable growth

- Optimise growth investment
- Maintain a strong balance sheet
- Improve efficiency and agility
- Maintain high levels of corporate governance and an ethical and sustainable supply chain
- Vigilance around data security and privacy

How shareholders benefit

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

Relevant UN Sustainable Development Goals

Delivering sustainable financial returns

Our long-term approach to investing, combined with disciplined capital management, has delivered consistent growth in sales revenue, profits and dividends over many decades.

Investing to grow

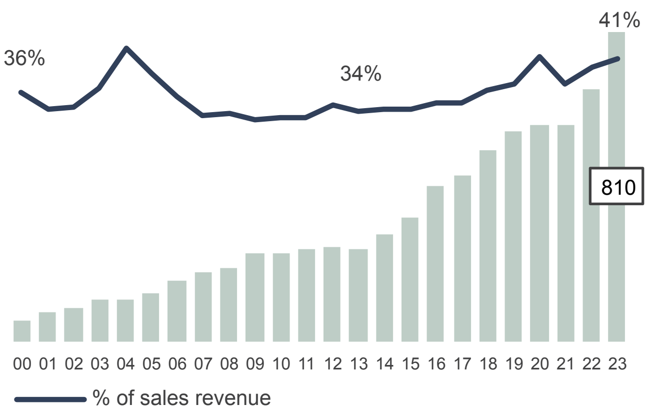
We take a long-term approach to investing and have consistently invested in growing the market for implantable solutions since listing in 1995.

Consistent investment in sales and marketing

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

Over the past few years, we have accelerated our investment in growth activities including direct-to-consumer marketing, standard of care initiatives and market access.

Operating expenses (excl R&D)
$million



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 $2.7 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 an 18% net profit margin over the long-term, reinvesting any efficiency gains, currency or tax benefits into market growth activities.

Operational improvement

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

Disciplined use of capital

Since listing, 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); and
- Entific – bone conduction implant business (FY05).

The innovation fund has invested around $170 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.

Strong financial position

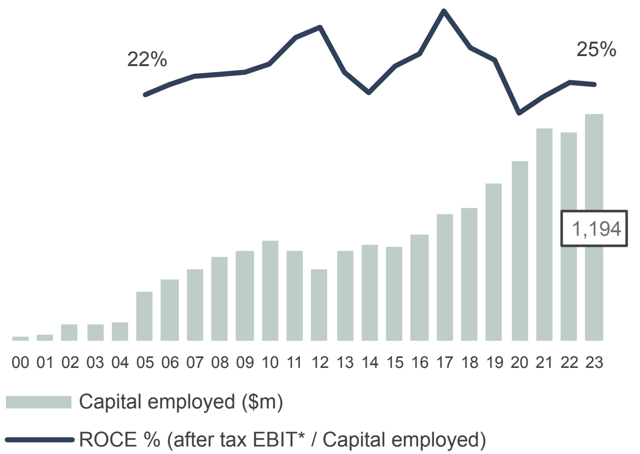
Strong free cash flow generation provides funding for market growth activities and R&D as well as the ability to reward shareholders with a growing dividend stream.

High return on capital employed (ROCE)

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.

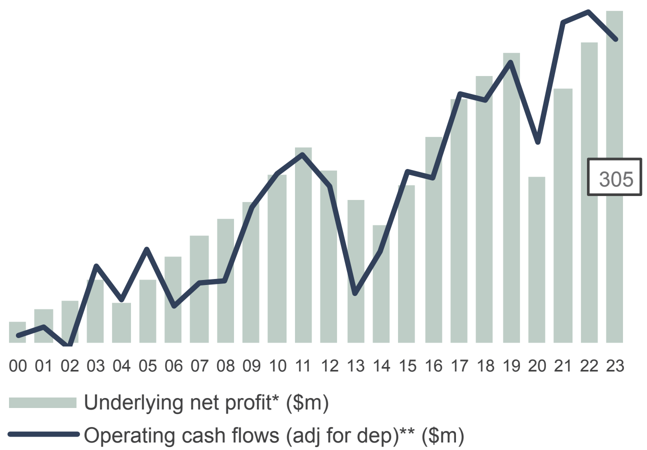
ROCE



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 underlying net profit and the operating cash flows generated by the business.

Operating cash flow v net profit
$million



Conservative gearing levels

We have a strong balance sheet, with over $550 million in net cash. We are a growth company that had, 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.

A progressive on-market share buyback commenced in February 2023 with the aim of reducing the cash balance to around $200 million over a number of years.

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.

Creating value responsibly

We recognise that high standards of corporate governance and transparency are important for the creation, maintenance and enhancement of long-term sustainable value.

The Board is committed to high standards of corporate governance practice and fostering a culture of compliance which values ethical, lawful and responsible behaviour, personal and corporate integrity, accountability, transparency and respect for others.

The Board and its committees regularly review the governance arrangements and practices to maintain compliance with regulatory requirements and industry practice and to ensure they continue to support business objectives.

Key aspects of our corporate governance framework and practices are set out in our 2023 Corporate Governance Statement, which is available on the website.

In FY23, we updated our Global Code of Conduct, maintaining the high standard of conduct, business ethics and integrity required of all our people around the world in driving our business forward. We conduct mandatory training on the Global Code of Conduct for all staff globally on an annual basis.

In the following section we discuss a few important areas where we have been increasing our governance metrics. These areas include procurement, cybersecurity and data privacy.

Responsible supply chain

We have a framework of policies, procedures and processes in place to manage risks relating to human rights, labour practices, corporate governance, safety and wellbeing and environmental sustainability in our supply chain.

Our 2022 Modern Slavery Statement provides an overview of this framework as it relates to these risks as well as further detail on our global approach to modern slavery and is available on the website.

In FY23, we established a cross-functional working group to manage opportunities for improvement in our processes, address emerging trends and monitor our progress. This working group was involved in a review of our Supplier Code of Conduct, which is available on our website.

During FY23, we continued to implement our supplier due diligence assessments to support sustainable and ethical procurement. No suppliers have required mitigation action plans.

We are taking action to engage a more diverse range of suppliers with the aim of generating social value beyond the value of goods or services being procured. In FY23, our spending with First Nations suppliers generated over $3.1 million in social value (as calculated by Supply Nation[1], provider of verified Australian Indigenous businesses).

As a signatory to the voluntary Business Council of Australia Supplier Code, we aim to pay eligible Australian small businesses within 30 days of receiving correct invoices and/or products.

As at 31 December 2022, we procured 15% of our supplies from Australian small businesses with 86% of invoices (by value) paid within 30 days. We continue to drive process improvements to ensure we pay small businesses promptly.

Cyber security

We handle and store personal information, including health information, for our customers and employees. With expanding information privacy and security regulations, we recognise data security as a key element of our relationship with our stakeholders.

We design and implement our information technology systems and applications with security controls in line with industry standards. In FY23, we obtained ISO 27001 Information Security certification of our Connected Care products, enhancing our capability to identify emerging threats and manage cyber-risks.

All employees must comply with our policies, standards and procedures to protect our information technology systems and data.

We maintain a defence-in-depth approach to security with multiple layers of controls and countermeasures in place to protect our information technology systems and data.

We have strong resilience controls which are tested regularly and we conduct incident response drills to ensure our teams remain vigilant and ready to respond. Independent third-party specialists conduct regular security assessments of our Information Technology systems.

We conduct regular information security awareness training for all employees to ensure our people are aware of the importance of information security.

The Chief Information Officer is charged with overseeing the organisation's information and cyber security programs and reports is a member of the Executive team.

The Audit and Risk Committee is responsible for revising our Risk Management Framework and risk management practices, including risks associated with the technology and research and development aspects of the business.

Data privacy

Our commitment to privacy is reflected in our Global Code of Conduct and our Privacy Values. As part of our vision and ambition for data, we have made commitments to process and protect the personal information of all our stakeholders in a compliant and ethical way.

Our Global Privacy Program reinforces this commitment and ensures that privacy is embedded into our business operations and that we adopt a privacy-by-design approach in designing our products and services and keep the personal information entrusted to us secure.

Privacy and data protection matters are led by the Chief Privacy Officer and is supported by employees globally.

As a multinational company, we operate in many jurisdictions, subject to different laws and regulations. To ensure we meet our privacy commitments and evolving stakeholder expectations we have a Global Privacy Program based on internationally recognised privacy and data protection principles that promotes transparency in data use practices.

We strive to be transparent with individuals in relation to how we process their personal information and to provide them with meaningful control over how their personal information is collected and used, including responding to their requests and complaints.

Our Global Privacy Notice explains how we handle personal information across our global operations.

We conduct mandatory privacy training for all staff as part of the onboarding process and supplement this training with specific training for targeted audiences.

We ensure proper third-party management and vendor compliance with data protection standards. Our vendors who process personal information are subject to a vendor privacy risk assessment as part of our privacy compliance and vendor management.

We aim to prevent and address privacy issues wherever they occur within the business and across our vendors. If we receive reports of data incidents, we investigate allegations and take action if there is evidence of wrongdoing.

Over the past year, we have not identified any substantial complaints concerning breaches of customer privacy or losses of customer data.

Tax transparency

We have a strong commitment to transparency and compliance from a regulatory and financial perspective and value the principles of being transparent with respect to tax strategy and compliance in Australia and globally.

A key driver of our global tax strategy is our longstanding commitment to Australian-based R&D and manufacturing as well as growing the business with broad economic benefits for Australia.

Our tax strategy reflects the generation of intellectual property that occurs primarily in Australia. The assets, risks and functions of implementing that strategy mean that the majority of our corporate income tax is paid in Australia.

Our 2023 Tax Contribution Report details taxes paid globally, tax strategy and tax governance, and is available on the website.

Public policy engagement

We participate in the formulation of public policy that could affect our business operations, patient access to appropriate care, public health and other areas of material interest.

We engage with governments directly and through participation in industry groups and other forums. We also collaborate with a range of other stakeholders including consumer/patient organisations, professional associations and industry peers on public policy issues at global, national and local levels.

In FY23, we contributed a total of $9,000 to political organisations in Australia, solely as a payment for attendance at events and briefings. These payments complied with our Global Code of Conduct.

In compliance with the Code, we did not make any cash donations to political parties or make direct campaign funding donations to either individuals or political parties.

We paid more than $3.5 million to industry associations, advocacy groups, professional associations and other related groups across 25 countries including Australia, Colombia, France, Germany, India, Japan, South Korea, Switzerland, Turkey, the UK and the US.

Animal welfare

As a medical device industry, we are required to demonstrate and document both safety and efficacy of our products in accordance with relevant regulations, guidelines and international standards.

Where an assessment of biological safety is required and animal studies are mandated by the regulations or guidelines, we subcontract studies to experienced and accredited contract research organisations.

Our Animal Ethics Policy outlines the core ethical principles in the respectful and humane use of animal subjects when required to be used in product development and research projects.

We apply the 3R principle – replacement, reduction, refinement – limiting animal testing as much as possible. Please refer to our Animal Ethics Policy for more details, which is available on the website.

Financial performance

Business segment performance

$m	FY23	FY22	Change % (reported)	Change % (CC*)	Sales Mix
Cochlear implants (units)	44,156	38,182	↑ 16%		
Sales revenue					
Cochlear implants	1,131.4	935.2	↑ 21%	↑ 17%	58%
Services (sound processor upgrades and other)	584.4	503.9	↑ 16%	↑ 14%	30%
Acoustics	239.9	202.0	↑ 19%	↑ 15%	12%
Total sales revenue	**1,955.7**	**1,641.1**	**↑ 19%**	**↑ 16%**	**100%**

Sales revenue increased 19% (16% in constant currency*) to a record $1,956 million, with strong growth across all business units.

Cochlear implants

Cochlear implant units increased 16% to 44,156 units, with strong growth across both developed and emerging markets. Sales revenue increased 21% (17% in CC) to $1,131.4 million.

Developed market units grew around 15% (18% in the second half) with strong growth across all markets driven by a combination of market growth, improved clinical capacity, market share gains and COVID catch-up surgeries. The Cochlear™ Nucleus® 8 Sound Processor has been well received, commencing its rollout in Western Europe from October and the US during November.

The clinical capacity constraints we experienced in FY22 from hospital staffing shortages stabilised during the first half, with indications that much of the remaining COVID-related surgical backlog cleared during FY23. We are seeing an improving trend in adult referral rates in key markets, providing us with early indications that initiatives to improve awareness and access for adult cochlear implant candidates are having some success.

Emerging market units grew close to 20% with strong growth across all regions, with most countries 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 also delivered strong growth.

Services (sound processor upgrades and other)

Services revenue increased 16% (14% in CC) to $584.4 million. First half revenues slowed in anticipation of the Nucleus® 8 Sound Processor, which was launched late in the half. Second half revenues grew 32% (27% in CC) with strong uptake of the new sound processor across the developed markets. Emerging markets also performed well with growing rates of sound processor upgrade penetration across most markets.

Acoustics

Acoustics revenue increased 19% (15% in CC) to a record $239.9 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, with more than 12,000 systems sold since launch. The Cochlear™ Baha® 6 Max Sound Processor continued to generate demand for sound processor upgrades across all regions.

* Constant currency (CC) removes the impact of exchange rate movements and foreign exchange (FX) contract gains/(losses) to facilitate comparability. See Notes on page 67 for further detail.

Profit and loss

$m	FY23	FY22	Change % (reported)	Change % (CC)
Sales revenue	**1,955.7**	**1,641.1**	**19%**	**16%**
Cost of sales	**488.0**	**411.0**	**19%**	**15%**
% Gross margin	*75%*	*75%*		
Selling, marketing and general expenses	606.5	498.7	22%	19%
Research and development expenses	244.9	210.7	16%	17%
% of sales revenue	*13%*	*13%*		
Administration expenses (excluding cloud investment)	165.4	137.4	20%	
Administration expenses (cloud investment)	38.5	21.6	78%	
Operating expenses	**1,055.3**	**868.4**	**22%**	**20%**
Other income	3.3	13.8		
FX contract gains / (losses)	(19.6)	7.2		
EBIT (underlying)*	**396.1**	**382.7**	**4%**	**7%**
*% EBIT margin**	*20%*	*23%*		
Net finance expense / (income)	(7.1)	6.2		
Income tax expense*	98.0	99.5		
% Effective tax rate	*24%*	*26%*		
Underlying net profit*	**305.2**	**277.0**	**10%**	**14%**
*% Underlying net profit margin**	*16%*	*17%*		
*% Underlying net profit margin (pre cloud investment)**	*17%*	*18%*		
One-off and non-recurring items (after-tax):				
Innovation fund gains / (losses)	(4.6)	12.1		
Statutory net profit	**300.6**	**289.1**	**4%**	**7%**

Sales revenue increased 19% (16% in CC) to $1,955.7 million and underlying net profit increased 10% (14% in CC) to $305.2 million. Statutory net profit increased 4% to $300.6 million.

Key points of note:

- Cost of sales increased 19% (15% in CC) to $488.0 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 22% (19% in CC) to $606.5 million reflecting continued investment in market growth activities, standard of care and market access initiatives;
- Investment in R&D increased 16% (17% in CC) to $244.9 million with continued investment made in key R&D projects and development of the product and services pipeline;
- Administration expenses (excluding cloud investment) increased 20% to $165.4 million primarily driven by increases in short-term incentives, additional headcount, costs associated with the Oticon Medical transaction as well as restructuring expenses; and
- Cloud investment of $38.5 million forms part of the $100-150 million investment in cloud-based technology solutions which will be incurred over four to five years.

* Excluding one-off and non-recurring items. See Notes on page 67 for further detail.

Cash flow

$m	FY23	FY22	Change
EBIT (underlying)	396.1	382.7	13.4
Depreciation and amortisation	80.9	73.0	7.9
Increase in working capital and other	(42.4)	(46.9)	4.5
Net interest received / (paid)	7.1	(6.2)	13.3
Income taxes paid	(79.3)	(26.1)	(53.2)
Operating cash flow	**362.4**	**376.5**	**(14.1)**
Capital expenditure	(95.9)	(77.2)	(18.7)
Other net investments	(29.8)	(61.7)	31.9
Free cash flow	**236.7**	**237.6**	**(0.9)**
Outlay from exercise of share options and performance rights	(10.7)	(1.1)	(9.6)
Payments for share buyback	(29.6)	-	(29.6)
Dividends paid	(197.4)	(194.0)	(3.4)
Payment of lease liability and other	(30.2)	(20.4)	(9.8)
Change in net cash – increase / (decrease)	**(31.2)**	**22.1**	**(53.3)**

Operating cash flow decreased $14.1 million to $362.4 million, with free cash flow declining $0.9 million to $236.7m.

Key points of note:

- The $42.4 million increase in working capital and other reflects investment in working capital as the business grows;
- Income taxes paid of $79.3 million is lower than the income tax expense in the income statement as a result of the timing of tax instalments and the receipt of a tax refund relating to prior year losses. Income taxes paid increased $53.2 million on FY22 primarily reflecting timing of tax payments and the larger tax refund received last year;
- Capital expenditure (capex) increased by $18.7 million to $95.9 million and includes the commencement of an upgrade to the Lane Cove facility and stay-in-business capex;
- Other net investments of $29.8 million comprises additional investment in the innovation fund for Precisis, Epiminder and Nyxoah; and
- Payments for share buyback reflects the $29.6 million outlay for the repurchase of ordinary shares as part of the on-market share buyback.

Capital employed

$m	Jun23	Jun22	Change
Trade receivables	388.4	308.4	80.0
Inventories	311.5	270.2	41.3
Less: Trade payables	(270.4)	(232.4)	(38.0)
Working capital	**429.5**	**346.2**	**83.3**
Working capital / sales revenue	*22%*	*21%*	
Property, plant and equipment	276.7	260.2	16.5
Intangible assets	444.1	392.5	51.6
Investments and other financial assets	188.1	187.9	0.2
Other net liabilities	(145.1)	(87.8)	(57.3)
Capital employed	**1,193.3**	**1,099.0**	**94.3**
Funding sources:			
Equity	1,748.8	1,685.7	63.1
Less: Net cash	(555.5)	(586.7)	31.2
Capital employed	**1,193.3**	**1,099.0**	**94.3**

Capital employed increased $94.3 million to $1,193.3 million since June 2022.

Key points of note:

- Working capital increased $83.3 million, lifting from 21% to 22% of sales revenue. The increase in trade receivables reflects the strong growth in sales revenue in the second half. Inventory levels remain higher than pre-COVID levels reflecting the building of safety stocks over the past few years in anticipation of potential ongoing global supply chain shortages;
- Intangible assets increased $51.6 million to $444.1 million, reflecting IT system costs and acquired and licenced technology;
- Other net liabilities increased $57.3 million to $145.1 million, primarily the result of the increase in employee incentives; and
- Net cash decreased $31.2 million to $555.5 million.

Dividends

	FY23	FY22	Change %
Interim ordinary dividend (per share)	$1.55	$1.55	0%
Final ordinary dividend (per share)	$1.75	$1.45	21%
Total ordinary dividends (per share)	**$3.30**	**$3.00**	**10%**
% Payout ratio (based on underlying net profit)	71%	71%	
% Franking (final dividend)	70%	40%	

A final dividend of $1.75 per share has been determined, taking full year dividends to $3.30, an increase of 10% and representing a payout of 71% of underlying net profit. The interim dividend was 35% franked and the final dividend is 70% franked. The franking balance had been depleted by losses incurred in FY20. The ex-dividend date is 18 September 2023. The record date for calculating dividend entitlements is 19 September 2023 with the final dividend expected to be paid on 11 October 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 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 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 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	FY23	FY22	Change %
Underlying net profit	**305.2**	**277.0**	**10%**
FX contract movement		(26.8)	
Spot exchange rate effect to sales revenue and expenses*		27.8	
Balance sheet revaluation*		(10.2)	
Underlying net profit (CC)	**305.2**	**267.8**	**14%**
One-off net gains / (losses)	(4.6)	12.1	
Statutory net profit (CC)	**300.6**	**279.9**	**7%**

* FY23 actual v FY22 at FY23 rates.

Governance and risk

Our approach to governance

High standards of corporate governance and transparency are fundamental to the sustainable, long-term success of the business. Cochlear's strong governance framework provides a solid structure for effective and responsible decision-making.

Corporate governance plays an integral role in supporting our business and helping us deliver on our strategy. It provides the frameworks and practices through which our strategy and business objectives are set, performance is monitored, and risks are managed. It includes a clear framework for decision making and accountability across the business.

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.

For FY23, the Board considers that Cochlear's governance practices have been consistent with the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations (fourth edition) and addressed additional aspects of governance which the Board considers important. The Corporate Governance Statement outlines key aspects of our corporate governance framework and practices and is available at: https://www.cochlear.com/au/en/corporate/investors/corporate-information/corporate-governance.

Our corporate governance framework

The Board is responsible for setting the strategic direction for the business aimed at creating, maintaining and enhancing long-term sustainable value. They guide and monitor management to implement the strategy and oversee good governance practice.

The Board aims to protect and enhance the interests of 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 the website.

The CEO & President has responsibility for the implementation of strategic objectives, operating within the risk appetite set by the Board and for the day-to-day management of Cochlear. The CEO & President is supported in this function by the Executive team.

Governance framework

Independent Assurance

Cochlear Board of directors

Oversee the leadership of the Company with the aim of maximising its long-term sustainable value while delivering on Cochlear's mission to help people hear and be heard.

Audit and Risk Committee

Oversee corporate reporting, the audit process, risk management and internal controls.

Medical Science Committee

Oversee medical aspects of Cochlear's implantable devices program.

Nomination Committee

Oversee Board and Committee composition, renewal and succession planning.

People and Culture Committee

Oversee values and behaviours, organisational culture and remuneration framework.

Product and Services Innovation Committee

Oversee strategy and implementation of product and related services innovation.

CEO & President

Responsible for the implementation of Cochlear's strategic objectives and the day-to-day management of Cochlear.

Executive team

Responsible for supporting CEO & President with the implementation of the strategic objectives and operational, financial and risk management.

Our people

Aim to achieve individual and team goals (objectives) while conducting themselves in line with the mission, HEAR behaviours, Global Code of Conduct, Company policies and procedures.

Supporting value creation

Board meetings are an important part of setting the expectations of management and providing the Board with oversight of the strategy, the organisation, risk management, governance and operations. These meetings include the presentation to the Board of key reports on business performance, significant developments as well as deep dives into key strategic initiatives.

In FY23 a multi-day Board strategy session was held and one meeting held offshore to provide detailed local and regional reviews and engagement with offshore employees, customers and research partners.

The Board recognises that our five focus areas of value creation, supported by disciplined governance and risk management, contribute to performance and drive the creation of long-term value for our business.

During the year, examples of some of the specific matters to support value creation that the Board deliberated on are set out below. While these do not represent the full scope of Board activities, they highlight some of the areas of focus by the Board.

A healthier and more productive society

- A review of key strategic initiatives to create long term value with a focus on developing a treatment pathway for adults, enhancing market access and improving access across the emerging markets
- Deep dives into key regional and functional priorities
- Oversight of the proposed acquisition of Oticon Medical

A lifetime of hearing solutions

- Oversight of the product and services pipeline and long-term R&D investment priorities

Thriving people

- Employee engagement and the strategies to improve engagement and strengthen corporate culture
- Review of the remuneration framework to assess its effectiveness and relevance to the market
- Risks and opportunities relating to health, safety and wellbeing, culture, talent and capability
- Oversight of plans to develop people capabilities across the business

Environmental responsibility

- Sustainability initiatives, including the pathway to net-zero carbon emissions in our operations by 2030
- Development of the sustainability governance framework

Sustained value

- Considering and approving financial reports, audit reports, market guidance, funding requirements and liquidity, and the implementation of the internal audit program
- Assessment of the capital structure and launch of an on-market share buy-back
- A periodic review of the Board Charter, Committee Terms of Reference and key governance policies
- Cyber and data security including the adequacy of controls and disaster recovery testing to mitigate these risks

Board skills matrix

The Board skills matrix sets out the mix of skills that the Board currently has in its membership and is reviewed annually to ensure the prescribed skills address our strategy and operating environment. It is also used to guide the identification of potential director candidates as part of the ongoing Board renewal process and to identify professional development initiatives for existing directors. A summary of the key skills of current directors is set out below. The full Board skills matrix including the criteria for each skill is set out in our Corporate Governance Statement, available on the website.

Skills		No. of Directors (10)
Medical device industry	Capability to oversee product commercialisation by applying a deep understanding of the medical device industry.	7
Healthcare industry	Competency in the healthcare industry including international health systems and medical science. Ability to influence public policy development in healthcare.	9
Research and development	Ability to develop product innovation to drive long-term business growth through strategic investment in research and development activities.	7
Technology and digital expertise	Ability to leverage new technologies, innovation processes and digital services to drive growth, realise scale benefits and enhance the customer experience.	10
Strategy	Ability to develop and implement successful strategies.	10
Global perspective	Ability to manage and oversee an organisation's business and strategic objectives from an international perspective.	10
Financial acumen	Ability to understand and analyse financial statements to assess financial performance and probe the adequacies of internal financial and risk controls. Understanding capital management and capital markets.	9
Public policy and regulatory affairs	Ability to manage the implications of public and regulatory policy on product development and commercialisation. Ability to influence public policy development.	7
Risk management	Ability to identify and manage key risks to an organisation to ensure the delivery of long-term value to shareholders.	10
Sustainability	Ability to oversee the integration of environmental, social and governance into business strategy and operations to support long term value creation for all stakeholders.	6
Governance	Commitment to the highest standards of governance. Ability to assess the effectiveness of process and procedures, and to manage legal, compliance and reputational risks.	10
People and culture	Understanding of remuneration practices and frameworks. Ability to attract talent, oversee talent management and retention initiatives and develop succession plans. Ability to set and oversee corporate culture ('tone from the top').	10

Managing our strategic risks

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

Our approach to risk

The Board sets the appetite for risk and provides oversight of the practices used by management to govern risk, and addresses specific issues escalated by the Audit and Risk Committee or management.

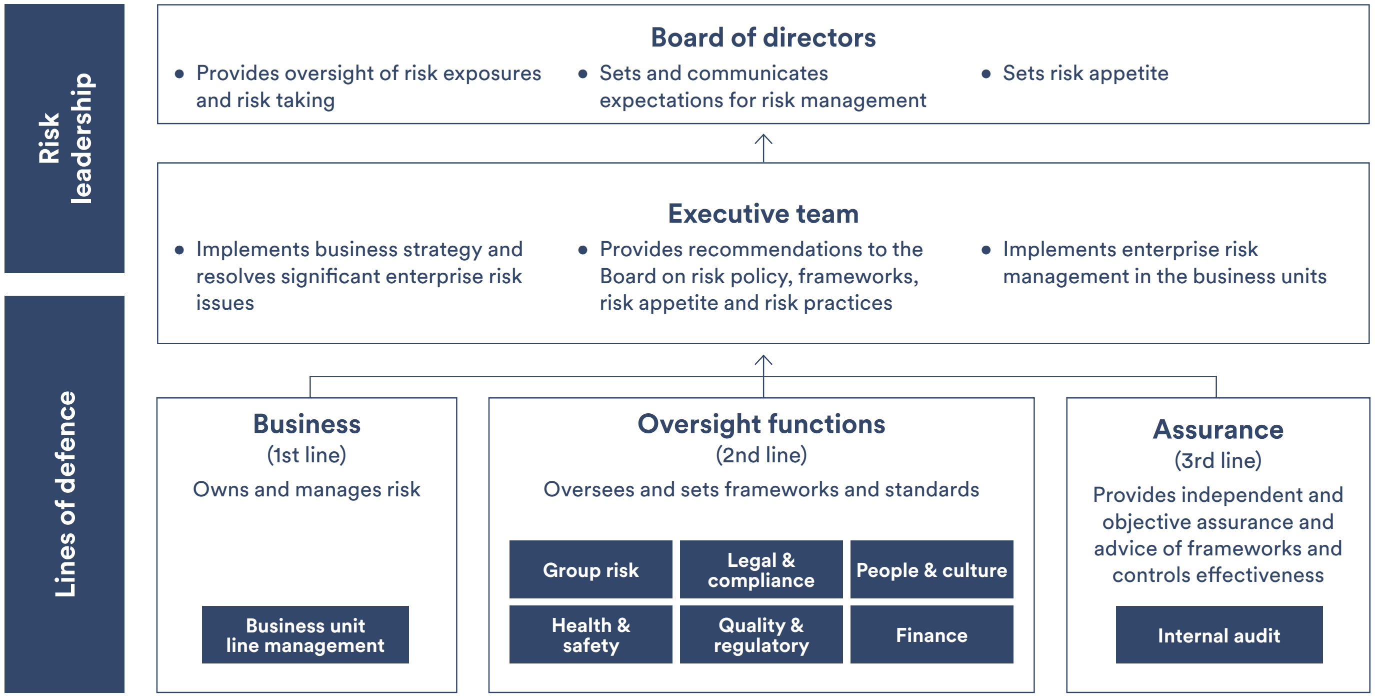
The Board recognises that a sound culture is fundamental to an effective risk management framework. We promote a culture which values the principles of honesty, transparency, integrity, fairness, constructive challenge and accountability, and these values are reflected in the Global Code of Conduct.

Senior management are responsible for reinforcing and modelling the key behaviours required to maintain a sound risk culture, including encouraging constructive reporting, challenging and transparency. These elements are necessary to support effective risk management and awareness and to support appropriate behaviours and judgements about risk taking.

Risk governance framework

Our risk framework enables us to understand and adapt to the strategic challenges from our operating environment. The diagram below outlines our risk governance framework and the key responsibilities of the Board, the Executive team, Internal Audit and the business units, incorporating the three lines model for how risk is managed.

We use it to manage material risk types including financial, non-financial and strategic risks. The specific risks we manage within each of these types are either existing risks, or forward-looking emerging risks that could require action now to minimise their impacts in the future.



Environmental and social risks

Our enterprise risk management approach includes assessment of our environmental and social risks. Due to the nature of our business and value chain, we do not have any material exposure to environmental or social risks at this time. We have identified material sustainability topics as outlined in the Sustainability data appendix on page 154.

Internal audit

The Internal Audit function is managed by and within the Group Risk and Assurance team and is accountable to the Board. Internal Audit provides assurance services to management and the Board in relation to the internal controls, risk management framework and governance of Cochlear. It does so through:

- performing audits in accordance with an Internal Audit Plan. The Plan is formulated using a risk-based approach and approved annually by the Audit and Risk Committee;
- having direct access to the Board through the Audit and Risk Committee, with the right to communicate to it in the absence of management; and
- regular reporting to the Executive team and the Audit and Risk Committee on the results of its audits.

The Audit and Risk Committee reviews and approves the Internal Audit Plan every six months. It also reviews the hiring and performance of the Vice President Group Risk and Assurance and the internal audit function. This process was followed during the reporting period.

Our business 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 framework can be found in the Corporate Governance Statement, both available on the website.

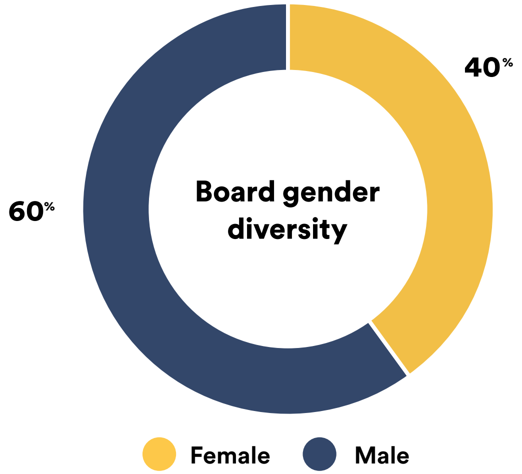
Risk	Description and potential consequences	Strategies used to mitigate the risk
Pandemics	As COVID has demonstrated, pandemics have the potential to impact our markets as elective surgeries may be deferred to reduce the strain on healthcare systems. Travel restrictions, government mandated shutdowns 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.

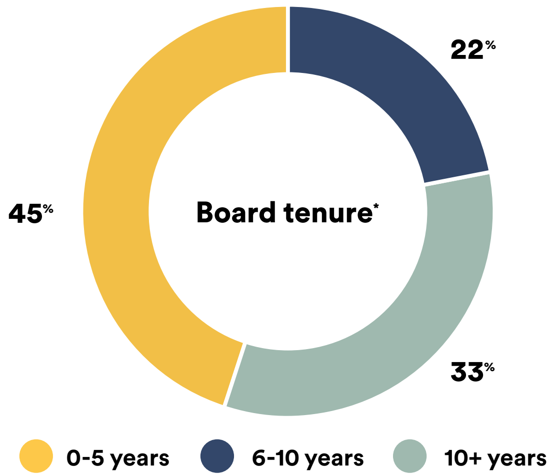
Risk	Description and potential consequences	Strategies used to mitigate the risk
Market access	The majority of our developed market customers rely on a level of reimbursement from insurers and government health authorities to fund their purchases. Pressure on healthcare budgets globally may lead to pressure 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 and 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.

Board of directors

Board composition

As at 30 June 2023





* Board tenure chart excludes Managing Director

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, Calix 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 The Observership Program.

Former directorships: SCEGGS Darlinghurst Limited, 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 Product and Services Innovation Committees.

Background: 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, 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

Yasmin Allen, AM

Non-executive Director

Appointed to the Board 2 August 2010: Member of the Audit and Risk, People and Culture, Nomination and Product and Services 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.

In June 2023, Ms Allen was awarded a Member of the Order of Australia in the King's Birthday Honours for her service to finance and business, and to the not-for-profit sector.

Other boards: Chair of Australian Federal Government Future 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 Product and Services 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 Data#3, 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 Product and Services 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.

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)

Michael del Prado

Non-executive Director

Appointed to the Board 1 January 2022: Member of the Medical Science, Nomination and Product and Services 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, Product and Services 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 of QBiotics. Director, Vaxxas.

Former directorships: Executive Chairman, Universal Biosensors. Chairman, SpeeDx

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 Product and Services 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.

Other boards: Chairman of the Suncorp Group Limited. Chancellor of the University of Wollongong. Co-founder and Chairman of the Minerva Network.

Former directorships: Chairman, Destination NSW. Chairman, Venues NSW. Director, nib Holding Limited and the McGrath Foundation.

Qualifications: BA, LLB (Hons), FAICD

Karen Penrose

Non-executive Director

Appointed to the Board 1 July 2022: Chair of the Audit and Risk Committee. Member of the People and Culture, Nomination and Product and Services Innovation Committees.

Background: Extensive executive career in senior leadership and Chief Financial Officer roles in financial services. An experienced 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. Director, Ramsay Sante (associated with Karen's directorship of Ramsay Health Care Limited), Rugby Australia and Marshall Investments.

Former directorships: Director, Vicinity Centres.

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 Product and Services Innovation Committees.

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

Other boards: Director, MaynePharma, QBiotics and Ecofibre. Director (former Chairman), Hoc Mai Foundation. Senior Advisor to McKinsey & Company and Advisor to MinterEllison.

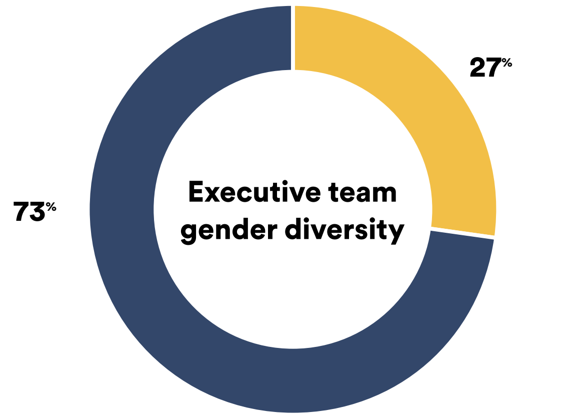
Former directorships: Chairman, National Health and Medical Research Council. Chairman, Medical Benefits Schedule Review Taskforce. Director, Lorica Health Pty Limited, Firefly, and Digital Health Agency CRC and Woolcock Institute of Medical Research.

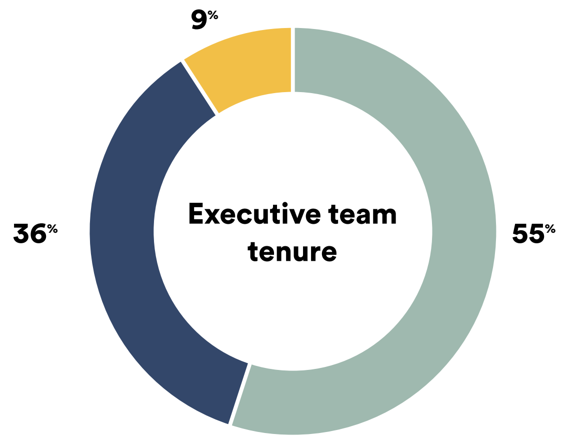
Qualifications: MD, MSc, FRACP, FAAHMS, FAICD

Executive team

Executive team composition

As at 30 June 2023





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 and McKinsey.

Qualifications: BEc (Hons), MBA

Jan Janssen
Chief Technology Officer

Jan joined Cochlear in 2000 and was appointed Senior Vice President Research & Development in 2005.

Jan leads a team of over 550 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.

In 2017 Jan was appointed Chief Technology Officer and took on the additional accountability for Business Development. Since 2019 he has also been accountable for Quality and Regulatory Affairs.

Jan holds 12 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 April 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 and 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

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

Karen O'Driscoll
Chief Information Officer

Karen has global responsibility for Cochlear's information technology strategy and management. She leads a team of more than 350 information technology professionals and is responsible for strengthening business processes and systems to improve efficiency and agility, enabling the business to be more scalable and provide even better solutions for customers.

Karen joined Cochlear in February 2023. Prior to Cochlear, Karen was Group Executive for Digital Services for Ventia Ltd and brings over 20 years of experience across pharmaceuticals and infrastructure industries.

Qualifications: BSc (Hons), GAICD

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

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, Global 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

Financial Statements

Remuneration report

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).

Letter from the Chair of the People and Culture Committee

Dear Shareholders

On behalf of the Board, I am pleased to present the FY23 Remuneration report where we outline our remuneration strategy, summarise the performance outcomes for FY23 and detail the associated remuneration outcomes for key management personnel.

Our remuneration strategy has been developed to ensure remuneration is fair and competitive in the context of being a globally integrated business, and in FY23 the Board has continued to focus on a governance framework that rewards responsible behaviours, aligns remuneration with regulatory requirements and has regard for the expectations of our customers, shareholders, and the community.

We continue to focus efforts on building a stronger organisation to enable us to grow and deliver for our customers over the long term. During the year we made good progress towards shaping our desired culture with a stronger focus on achievement and on enterprise leadership, whilst also preserving those elements of our culture that have brought us success.

We also continued to take steps to invest in our talent and made strong progress towards building the strategic capabilities which provide us with a sustainable competitive advantage.

We continue to see high levels of engagement, maintained at 80%, and strong progress has been maintained against our gender diversity targets.

FY23 performance and reward outcomes

The Board is satisfied that the reward outcomes for FY23 reflect the Company's performance. In FY23 we delivered record revenue and underlying net profit[1], strengthened our competitive position, expanded acoustics sales, and continued to execute growth programs to drive long term value creation.

Our corporate strategy is clear and is being executed effectively across the globe and our culture and transformation programs continue with strong global support. We have overachieved on our strategic priorities of growing the hearing implant market and creating consistent and sustainable growth. We have also continued to make good progress to maintain our market leadership and build a stronger organisation through our continued investment in culture, capability, and talent. We have further integrated sustainability metrics into our strategic priorities to ensure they are prioritised. This includes minimising our environmental impact.

[1] Excluding one off and non-recurring items

Performance has exceeded expectations this year and has resulted in the awarding of short-term incentives (STI) above target to the CEO & President and the Executive team under the FY23 STI plan, with an STI payment of 142.4% of target (79.1% of maximum) for the CEO & President.

For long-term incentives (LTIs), relative total shareholder return (TSR) against the ASX 100 was above median (at the 55th percentile) and basic earnings per share (EPS) represented a 0.4% compound annual growth rate over the last four years, reflecting the impact of COVID and the 2020 capital raise. This resulted in 26.1% vesting under the FY20-23 LTI plan.

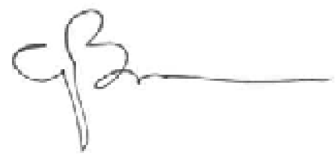
Further details on this year's remuneration outcomes are provided in this report.

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. There were no major changes to our executive reward framework for FY23. However, strong competition for talent in many of the markets in which we operate has continued during FY23 and we expect this to continue for the foreseeable future.

We undertake regular reviews of our executive reward framework to ensure it is fit for purpose, with a particular focus on applicability across the regions. For FY24 we have increased the STI quantum for the KMP from a target of 75% to 90% of base salary, excluding the CEO & President, to ensure they are aligned to market. Additionally, we have increased the portion of STI that is deferred into equity for a period of two years to further drive alignment between executives and shareholders and support retention. Also, for the FY24 LTI grant we will use face value as the basis for the allocation of performance rights.

We have seen significant growth in the business over the last few years and we will continue to review our executive reward offering to ensure it attracts, motivates, and retains a highly qualified and experienced group of executives employed across diverse geographies.



Glen Boreham, AM
Chair, People and Culture Committee

1. Key management personnel

This report covers key management personnel (KMP) who have authority for planning, directing, and controlling the activities of Cochlear and comprises Non-executive Directors (NEDs) and executive KMP as outlined in the table below. The three Regional Presidents (Lisa Aubert, Anthony Bishop, and Richard Brook) are no longer included as KMP from 1 July 2022 due to structural changes and the global integration of most support functions over time resulting in these roles no longer meeting the criteria of planning, directing, or controlling the activities of Cochlear as a whole.

Name	Position	Term as KMP
Non-executive Directors		
Alison Deans	Chair	Full year
Yasmin Allen, AM	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	Full year
Andrew Denver	Non-executive Director	Full year
Christine McLoughlin, AM	Non-executive Director	Full year
Bruce Robinson, AC	Non-executive Director	Full year
Karen Penrose[1]	Non-executive Director	Full year
Executive KMP		
Dig Howitt	CEO & President (CEO&P)	Full year
Jan Janssen	Chief Technology Officer (CTO)	Full year
Stu Sayers	Chief Financial Officer (CFO)	Full year

[1] Karen Penrose was appointed as Non-executive Director (NED) of Cochlear 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 FY23 (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 FY23.

Amounts $	Year	Fixed remuneration[1]	Cash STI[2]	Vested deferred STI[3]	Vested LTI[4]	Total
Executive KMP						
D Howitt	**FY23**	**2,034,343**	**1,866,877**	–	–	**3,901,220**
	FY22	1,952,875	1,362,427	636,243	412,062	4,363,607
J Janssen	**FY23**	**1,006,581**	**750,611**	–	–	**1,757,192**
	FY22	972,990	465,143	243,241	85,202	1,766,576
S Sayers	**FY23**	**893,594**	**699,799**	–	–	**1,593,393**
	FY22	871,068	443,685	–	–	1,314,753

1 Fixed remuneration earned in the year (base salary, superannuation, and non-monetary benefits)

2 Cash STI earned and relating to performance during the financial year. For example, FY23 is reported as STI payments which are accrued at year end, and received in August 2023, 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, FY23 is reported as the FY20 deferred STI grant, however in response to the impact of Covid-19 on business performance, no grants were made in FY20.

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). FY23 is reported as the first tranche of the FY20 LTI grant subject to a three-year performance period to 30 June 2022, with a vesting date in August 2022 (0% of awards vested as performance hurdles were not met).

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.

Our mission

We help people hear and be heard.

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

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

A healthier and more productive society	**A lifetime of hearing solutions**	**Thriving people**	**Environmental responsibility**	**Sustained value**

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

Grow the hearing implant market	**Retain market leadership**	**A stronger organisation**	**Minimise environmental impact**	**Consistent and sustainable growth**

The **performance measures** across our incentive plans reflect achievement of both financial and strategic objectives.

Financial measures	**Strategic measures**	**Market measures**
Underlying net profit Sales revenue Compound annual growth rate in basic earnings per share	Achievement of strategic priorities and growth initiatives	Relative total shareholder return (TSR)

With actual outcomes directly driving executive remuneration.

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

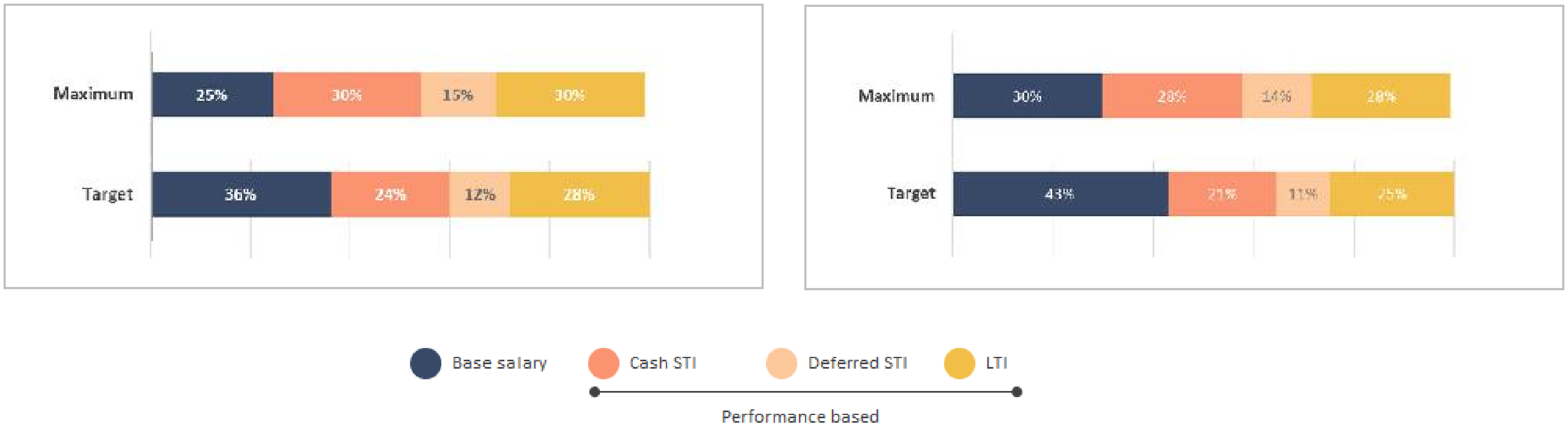
3.1 Remuneration mix

The total remuneration for executive KMP is made up of both fixed and variable remuneration. Variable remuneration is provided through the short-term incentive (STI) and long-term incentive (LTI) plans.

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. A portion of executive remuneration is delivered in equity (deferred STI and LTI), to align our executives with shareholder interests.

The following diagrams set out the maximum and target remuneration mix for executive KMP in FY23.

CEO&P | **Other executive KMPs**



3.2 Fixed remuneration

Fixed remuneration comprises base salary, superannuation, and non-monetary benefits. 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 People and Culture Committee (P&CC) each year.

3.3 Short-term incentive

Purpose	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.
Performance measures	STI is dependent on meeting financial and strategic performance measures: **Performance measure and weighting** — **Description** Performance Gateway: • Group Performance Gateway (minimum underlying net profit threshold) to drive global alignment. Sales revenue (60%): • 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. Strategic measures (40%): • Strategic measures recognise that in addition to short-term financial results, several strategic initiatives are required to enable sustained growth over time. Individual contribution: • Each executive's contribution against performance objectives is assessed at an individual level at the end of the performance period. This assessment determines the value of the short-term incentive award. 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 FY23.
Opportunity	**CEO&P:** target opportunity is 100% of base salary, and maximum (based on exceeding the performance measures and at the discretion of the board) 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.
Delivery	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 determined by dividing the value of one-third of the STI outcome by the value of performance rights determined as a 'gross contract value' using the share price following the announcement of full-year results in August each year. Gross contract value uses a Black-Scholes-Merton pricing model and discounts for dividends not paid, share price volatility and the risk free rate of return. There is no discount for the likelihood of service conditions.
Cessation of employment	**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.

3.4 Long-term incentive

Purpose	To align the remuneration opportunity for the executive team with shareholder value and provide a stimulus for the retention of executives within the Company.
Award vehicle	LTI is delivered as 50% options and 50% performance rights.
Opportunity	**CEO&P:** maximum opportunity is 125% of base salary. **Other executive KMP:** maximum opportunity is 90% of base salary.
Allocation method	The number of rights is calculated by dividing the value of the opportunity by the value of the options and performance rights determined as 'gross contract values' using the five-day volume-weighted average share price following the announcement of full-year results in August each year. Gross contract value uses a Black-Scholes-Merton pricing model and 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.
Performance period	Performance is measured over a four-year performance period. In FY20 the LTI Plan transitioned from a 3- year to a 4-year performance period and executive KMP, excluding the CEO&P, received 2 grants of LTI. The Grant 2 of the FY20 LTI is subject to a four-year performance period vesting in August 2023. There is no retesting of performance hurdles under the LTI plan.
Exercise period (for options)	Post vesting, options expire 25 months after the vesting date if they have not been exercised. The Board also has 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.
Performance measures and hurdles	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: (see tables below) 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.
Dividends	No dividends are attached to options or performance rights. From FY24 onwards, dividends will be attached to performance rights.
Cessation of employment	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.

Relative TSR	
Performance	**% of instruments that vest**
Less than 50th percentile	0%
At the 50th percentile	40%
50th percentile to 75th percentile	40% to 100% (pro-rata)
Above 75th percentile	100%

Basic EPS	
Performance (CAGR)	**% of instruments that vest**
Less than 7.5%	0%
7.5%	50%
7.5% to 12.5%	50% to 100% (pro-rata)
Above 12.5%	100%

4. Executive KMP remuneration and link to performance

4.1 FY23 STI outcomes

STI is based on meeting a Group Performance Gateway of underlying net profit, 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 and P&CC (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 FY23, underlying net profit was above the Group Performance Gateway and sales revenue grew 19% (16% in constant currency). 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.

Key performance targets were met for FY23 resulting in an average actual STI of 153.7% of target and 85.4% 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 August 2023, and one-third will be deferred into service rights and subject to service conditions until August 2025.

	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%	142.4%	79.1%	20.9%	2,800,316
J Janssen	75%	135%	156.0%	86.6%	13.4%	1,125,916
S Sayers	75%	135%	162.7%	90.4%	9.6%	1,049,699

The table below (unaudited) 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.

How we create value	A healthier and more productive society	A lifetime of hearing solutions	Thriving people	Environmental responsibility	Sustained value
Long Term Target	Help at least 8% more people to hear each year with a cochlear or acoustic implant.	Develop market-leading technology and deliver a world-class customer experience to recipients and professional customers.	Retain employee engagement levels at or above 80%.	Net-zero carbon emissions in our operations by 2030 and across our value chain by 2050.	Sustainable and responsible business practices, targeting growth in sales revenue of around 10% per annum and an 18% net profit margin.
	Strategic measures (40%)				**Financial measures (60%)**
Strategic priorities	**Grow the hearing implant market** • Strengthen the referral pathway for adults • Develop the acoustic implant segment • Broaden reimbursement and improve indications • Expand access in emerging markets	**Retain market leadership** • Advance the product and services pipeline, with annual R&D investment of ~12% of revenue • Deliver our latest sound processor upgrade technology to existing recipients • Deliver high levels of service for all customers • Maintain high standards of product quality, safety and reliability	**A stronger organisation** • Strengthen and nurture the organisational culture • Attract, develop and retain talent • Champion a culture of diversity and inclusion • Support the wellness and safety of our teams	**Minimise environmental impact** • Advance the implementation of initiatives to reduce our Scope 1, 2 and 3 carbon emissions • Embed sustainability into product design, development and manufacturing • Deliver a global approach to managing the environmental impacts of packaging and waste	**Consistent and sustainable growth** • Optimise growth investment • Maintain a strong balance sheet • Improve efficiency and agility • Maintain high levels of corporate governance and an ethical and sustainable supply chain • Vigilance around data security and privacy
FY23 highlights	• Helped over 44,000 more people to hear with an implant, up 15% • Progress made in strengthening the referral pathway for adults • New evidence showing hearing intervention may slow cognitive decline • Expanding indications and reimbursement in a number of countries	• Strong pipeline of products and services in development from investing over $240m in R&D • Launched the Cochlear™ Nucleus® 8 Sound Processor which is smaller, smarter, and better connected than its predecessor • Delivered latest generation sound processors to over 48,000 cochlear implant recipients, up 19% • Bimodal control in the Nucleus® Smart Appt	• Continued focus on shaping our culture through training and leadership development programs delivered through all levels of the organisation. 75% of all people leaders have completed these programs • Employee engagement maintained at 80% • Continued to exceed gender targets with 43% women in senior manager roles and 40% women on the Board of directors	• Reached 96% renewable energy at our manufacturing facilities, using 100% renewable energy in five of our six facilities • Reduced our Scope 1 and 2 emissions by 68% from our FY19 baseline • Reduced the number of flights taken per full time employee by 47%, from our FY19 baseline, and our flight related emissions by 91%	• Delivered record sales revenue, up 19% (16% in CC*) • Underlying net profit** up 10% (14% in CC), the top end of the guidance range • Underlying net profit margin of 17% (pre cloud) • Full year dividends up 10% • Obtained ISO 27001 Information Security certification of our Connected Care products • Commenced on-market share buyback
FY23 Scorecard	**Exceeded Expectations**	**Met Expectations**	**Met Expectations**	**Met Expectations**	**Exceeded Expectations**

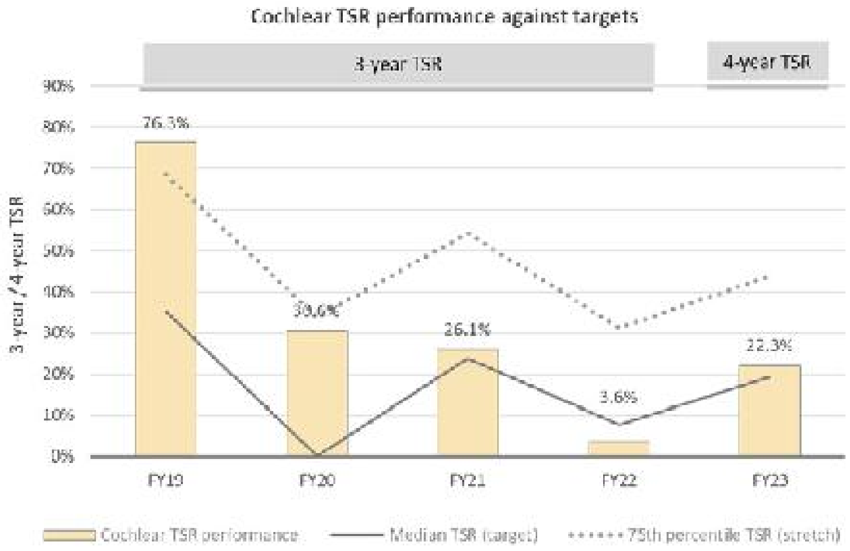
* Constant currency. ** Excluding one-off and non-recurring items.

4.2 FY20-23 LTI vesting outcomes

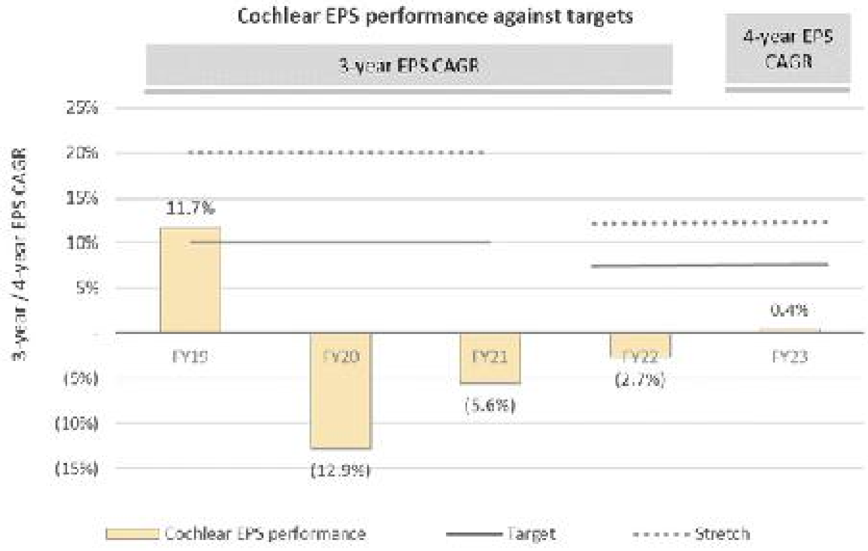
In FY20 the LTI Plan transitioned from a 3- year to a 4-year performance period and KMP, excluding the CEO&P, received 2 grants of LTI. Grant 1 was for 50% of their annual LTI opportunity, with a 3-year performance period. Grant 2 was for 75% of their annual LTI opportunity with a 4-year performance period. Presented below is the performance outcome for Grant 2 of the FY20 LTI subject to a 4-year performance period to 30 June 2023. Grant 1 of the FY20 LTI was presented in last year's report. In FY20 the CEO received 100% of his annual LTI opportunity with a 4-year performance period (Grant 2) and did not receive a transitional arrangement (Grant 1).

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.

Cochlear's TSR for the performance period 1 July 2019 to 30 June 2023 was 22.3%, which was ranked at the 55th percentile of the ASX 100 comparator group. This resulted in performance above target, and as a result, 52.2% of the TSR portion of the LTI vested.



Cochlear's basic EPS[1] for the performance period 1 July 2019 to 30 June 2023 was 464.1 cents, which is a 0.4% CAGR over the four-year performance period. This resulted in performance below target[2] and as a result, 0% of the EPS portion of the LTI vested.



[1]For the purpose of the FY20-23 LTI, EPS is determined based on underlying net profit 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 (FY19 to FY23)

	FY19	FY20	FY21[1]	FY22	FY23
Sales revenue ($million)[2]	1,446.1	1,352.3	1,493.3	1,641.1	1,955.7
Earnings/(loss) before interest and tax (EBIT) ($million)	370.1	(262.2)	370.2	400.0	389.5
Underlying EBIT ($million)	359.3	206.9	326.3	382.7	396.1
Reported EPS					
Net profit/(loss) after tax (NPAT) ($million)	276.7	(238.3)	323.8	289.1	300.6
Basic earnings/(loss) per share (EPS) (cents) – reported	460.9	(399.6)	492.6	439.6	457.0
EPS growth[4]	13.2%	(200.8%)	4.9%	(2.9%)	(1.2%)
Underlying EPS					
Underlying NPAT ($million)[3]	263.8	149.1	234.0	277.0	305.2
EPS (cents)[3]	457.2	250.0	356.0	421.1	464.1
EPS growth[4]	11.7%	(12.9%)	(5.6%)	(2.7%)	0.4%
Share price and dividends					
Total dividend per share ($)	3.30	1.60	2.55	3.00	3.30
Shares bought back and cancelled ($million)	–	–	–	–	26.4
Share price as at 30 June ($)	206.84	188.93	251.67	198.70	229.07
Relative total shareholder return (TSR)	76.3%	30.6%	26.1%	3.6%	22.3%
TSR percentile ranking[5]	81st	72nd	54th	42nd	55th

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.
4 EPS growth for FY19 to FY22 is as reported in prior Remuneration Reports, as it relates to LTI awards that have already vested in prior years. EPS growth for FY19 to FY22 is based on 3-year CAGR and EPS growth for FY23 is based on 4-year CAGR. EPS growth has been calculated based on the reported basic earnings per share adjusted for restatements for the accounting policy change in relation to cloud computing.
5 TSR percentile ranking for FY19 to FY22 is shown over three financial years to 30 June. TSR percentile ranking for FY23 is shown over four financial years to 30 June 2023. 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 62 to 67 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			Total	% of performance related remuneration
		Salary[1]	Cash STI	Non-monetary benefits[2]	Superannuation contributions	Long service leave	Deferred STI[3]	LTI performance rights[4]	LTI options[4]		
Executive KMP											
D Howitt	**FY23**	**2,007,343**	**1,866,877**	**1,709**	**25,292**	**47,439**	**826,481**	**700,726**	**833,498**	**6,309,365**	**67.00%**
	FY22	1,927,769	1,362,427	1,538	23,568	50,872	515,383	595,748	493,294	4,970,599	59.69%
J Janssen	**FY23**	**979,580**	**750,611**	**1,709**	**25,292**	**(29,683)**	**308,548**	**214,348**	**252,376**	**2,502,781**	**60.97%**
	FY22	947,884	465,143	1,538	23,568	12,897	183,460	185,570	152,856	1,972,916	50.03%
S Sayers	**FY23**	**867,277**	**699,799**	**1,025**	**25,292**	**16,456**	**264,637**	**170,594**	**199,533**	**2,244,613**	**59.46%**
	FY22	846,577	443,685	923	23,568	8,219	148,066	131,525	109,960	1,712,523	48.66%
Total	**FY23**	**3,854,200**	**3,317,287**	**4,443**	**75,876**	**34,212**	**1,399,666**	**1,085,668**	**1,285,407**	**11,056,759**	**64.11%**
	FY22	3,722,230	2,271,255	3,999	70,704	71,988	846,909	912,843	756,110	8,656,038	55.30%

1 Salary includes annual base salary paid on a fortnightly basis.
2 Non-monetary benefits include insurances for all KMP.
3 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 FY23 amount represents the portion of the FY21, FY22 and FY23 deferred STI expensed in FY23. The FY22 amount represents the portion of the FY21 and FY22 deferred STI expensed in FY22.
4 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.

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 12 weeks to 6 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.

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 and 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 FY23, the P&CC engaged Guerdon to provide information used as an input to the annual review of executive KMP 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' 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 FY23 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	Expiry date (Options)[3]	Vested	Forfeited
			Number	Maximum value to be expensed ($)[1]	Number	Maximum value to be expensed ($)[1]				
Executive KMP										
D Howitt	FY20 LTI	23-Oct-19	24,041	–	4,432	–	16-Aug-23	16-Mar-24		
	FY21 LTI	21-Oct-20	21,217	215,986	4,782	187,269	21-Aug-24	21-Mar-25		
	FY21 deferred STI	30-Sep-21	–	–	3,851	–	16-Aug-23			
	FY22 LTI	20-Oct-21	21,808	544,704	5,341	464,680	20-Aug-25	20-Mar-26		
	FY22 deferred STI	29-Sep-22	-	–	3,257	227,024	16-Aug-24			
	FY23 LTI	16-Sep-22	19,087	713,253	6,041	622,295	18-Aug-26	18-Sep-28		
	Total		**86,153**	**1,473,943**	**27,704**	**1,501,268**				
J Janssen	FY20 LTI	23-Oct-19	3,237	–	534	–	22-Aug-22		0.0%	100.0%
	FY20 LTI	23-Oct-19	4,413	–	813	–	16-Aug-23	16-Mar-24		
	FY21 LTI	21-Oct-20	5,197	52,905	1,171	45,858	21-Aug-24	21-Mar-25		
	FY21 deferred STI	30-Sep-21	–	–	1,415	–	16-Aug-23			
	FY22 LTI	17-Sep-21	7,685	191,950	1,882	163,739	20-Aug-25	20-Mar-26		
	FY22 deferred STI	29-Sep-22	–	–	1,112	77,510	16-Aug-24			
	FY23 LTI	16-Sep-22	6,726	251,341	2,129	219,313	18-Aug-26	18-Sep-28		
	Total		**27,258**	**496,196**	**9,056**	**506,420**				
S Sayers[2]	FY21 deferred STI	30-Sep-21	–	–	990	–	16-Aug-23			
	FY22 LTI	17-Sep-21	7,636	190,726	1,870	162,695	20-Aug-25	20-Mar-26		
	FY22 deferred STI	29-Sep-22	–	–	1,060	73,886	16-Aug-24			
	FY23 LTI	16-Sep-22	6,010	224,585	1,902	195,929	18-Aug-26	18-Sep-28		
	Total		**13,646**	**415,311**	**5,822**	**432,510**				

1 The options granted in FY23 have an exercise price of $216.33, and an expiry date of 18 September 2028. Fair values (AASB 2) of FY23 options and performance rights under the LTI plan as at the date of grant are as follows: options (EPS growth: $64.39; relative TSR: $54.08) and performance rights (EPS growth: $203.44; relative TSR: $130.71). 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 LTI reported for S 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.

3 No expiry date for deferred STI, as they automatically vest on the vesting date.

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

In FY23, there was no vesting of the deferred STI for executive KMP, as no STI was allocated in FY20, and no vesting of the FY20 LTI, as the performance hurdles were not met.

	Balance 1 July 2022	Received on exercise of options/rights	Purchases and sales	Balance 30 June 2023
Executive KMP				
D Howitt	48,786	–	–	**48,786**
J Janssen	8,093	–	(1,000)	**7,093**
S Sayers	2,842	–	–	**2,842**

Rights held during the year

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

- Granted: FY23 LTI awards were granted in September/October 2022 and FY22 Deferred STI awards were granted in September 2022; and
- Vested: no deferred STI was allocated in FY20 and 0% of the FY20 LTI award vested in August 2022.

	Balance 1 July 2022	Deferred STI service rights			LTI performance rights			Balance 30 June 2023
		Granted	Vested	Forfeited	Granted	Vested	Forfeited	
Executive KMP								
D Howitt	18,406	3,257	–	–	6,041	–	–	**27,704**
J Janssen	5,815	1,112	–	–	2,129	–	(534)	**8,522**
S Sayers[1]	3,875	1,060	–	–	1,902	–	(215)	**6,622**

[1] For S Sayers vested and forfeited awards also relate to roles prior to appointment as KMP.

Options held during the year

Options over ordinary shares are acquired by executive KMP under the LTI plan. During the year, FY23 LTI awards were granted in September/October 2022 and 0% of the FY20 LTI award (Grant 1) was vested. All options held at the end of the year are unvested.

	Balance 1 July 2022	LTI options				Balance 30 June 2023	Vested and exercisable at 30 June 2023
		Granted	Vested and exercised	Vested and lapsed	Forfeited		
Executive KMP							
D Howitt	67,066	19,087	–	–	–	**86,153**	–
J Janssen	20,532	6,726	–	–	(3,237)	**24,021**	–
S Sayers[1]	12,822	6,010	–	–	(1,307)	**17,525**	–

[1] For S Sayers, vested and forfeited options also relate to roles prior to appointment as KMP.

Executive minimum shareholding

As at 30 June 2023, 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, which they have confirmed through the executive KMP disclosures for FY23.

	Ordinary shares held	Policy value of Cochlear shares at year end ($)[1]	% of base salary[2]
Executive KMP			
D Howitt	48,786	10,682,183	543%
J Janssen	7,093	1,553,083	161%
S Sayers[3]	2,842	622,284	72%

[1] In line with the Share Ownership Policy, the value has been calculated as the average daily share price over the previous 12 months ($218.96), as at closing on the ASX up to 30 June 2023, 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 2023.
[3] S Sayers is on track to meet the minimum shareholding requirement of 100% of base salary, as equity vests in future years.

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 ($)	Exercise period	Current net value of outstanding options as at 30 June 2023 ($)[2]
		Issued	Forfeited/ lapsed[1]	At report date			
FY20 LTI	23-Oct-19	57,074	(5,272)	51,802	217.28	Aug-23 to Mar-24	610,746
FY21 LTI	21-Oct-20	55,729	(998)	54,731	206.06	Aug-24 to Mar-25	1,259,360
FY22 LTI	17-Sep-21 (Executive KMP) 20-Oct-21 (CEO&P)	80,240	(11,105)	69,135	232.52	Aug-25 to Mar-26	–
FY23 LTI	16-Sep-22 (Executive KMP) 19-Oct-22 (CEO&P)	67,487	–	67,487	216.33	Aug-26 to Sep-28	859,784
Total		**260,530**	**(17,375)**	**243,155**			**2,729,890**

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 2023 (exercise price less the closing share price as at 30 June 2023 of $229.07).

Total unvested equity currently accounts for approximately 0.60% of the total number of issued shares, as set out below.

Instrument	Number of equivalent shares at 30 June 2023
Unvested LTI options	243,155
Unvested LTI rights	60,164
Unvested deferred STI rights	72,400
Service rights	20,099
Total	**395,818**
As % of total issued shares	0.60%
Number of issued shares	65,671,649

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 of $3,500,000 for FY23 (approved at the 2022 Annual General Meeting). Total remuneration paid during the year was $2,825,555, which is within the fee pool limit (represented 80.7% 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 and base Member fees by 3%, effective 1 July 2022. 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 FY22 and FY23.

Amounts $[1]	FY22		FY23	
	Chair	Member	Chair	Member
Cochlear Board	534,103	176,720	550,126	182,022
Committees[2]				
Audit and Risk	50,000	25,000	50,000	25,000
People and Culture	40,000	20,000	40,000	20,000
Technology and 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 10.5% 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. Currently 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 FY23, one NED based in the United States received a travel allowance of $50,000 to reflect five trips 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 (Restated[1])	
Non-executive Directors					
A Deans (Chair)	**FY23**	**552,242**	–	**25,292**	**577,534**
	FY22	495,341	–	23,568	518,909
Y Allen, AM	**FY23**	**263,837**	–	**25,292**	**289,129**
	FY22	266,720	–	23,568	290,288
G Boreham, AM	**FY23**	**268,049**	–	**25,292**	**293,341**
	FY22	261,720	–	23,568	285,288
M Daniell, KNZM	**FY23**	**263,030**	**–**	**25,292**	**288,322**
	FY22	246,547	–	22,946	269,493
M del Prado[1]	**FY23**	**240,737**	**50,000**	**–**	**290,737**
	FY22	**114,654**	10,000	–	124,654
A Denver	**FY23**	**242,953**	–	**24,375**	**267,328**
	FY22	236,720	–	22,710	259,430
C McLoughlin, AM[2]	**FY23**	**272,591**	–	–	**272,591**
	FY22	235,797	–	22,979	258,776
B Robinson, AC	**FY23**	**252,991**	–	**24,860**	**277,851**
	FY22	246,720	–	23,171	269,891
K Penrose	**FY23**	**244,510**	–	**24,212**	**268,722**
	FY22	–	–	–	–
Total	**FY23**	**2,578,065**	**50,000**	**197,490**	**2,825,555**
	FY22	2,093,796	10,000	172,933	2,276,729

1 M 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 $22,875 was paid over the period from 1 July 2022 to 30 June 2023 as fees in lieu of superannuation guarantee payments which would have been received. For FY22, an equivalent amount of $10,423 paid in lieu of superannuation guarantee has been restated and included in fees.

2 Effective 1 July 2022, C McLoughlin has opted out of receiving superannuation guarantee payments in accordance with the *Superannuation Guarantee (Administration) Act 1992* (Cth). An equivalent amount of $24,619 was paid over the period from 1 July 2022 to 30 June 2023 as fees.

9.3 Minimum shareholding requirement for NEDs

NEDs are required 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 2023, all NEDs 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, which they have confirmed through the NED disclosures for FY23.

	Balance 1 July 2022	Purchases	Sales	Balance 30 June 2023	Policy value of shares as at 30 June 2023 ($)[1]	% of fees[2]	Date of appointment as a NED
Non-executive Directors							
A Deans	4,000	500	–	4,500	985,320	179%	
Y Allen, AM	3,714	–	–	3,714	813,217	329%	
G Boreham, AM	3,014	–	–	3,014	659,945	247%	
M Daniell, KNZM	1,214	200	–	1,414	309,609	118%	
M del Prado[3]	–	582	–	582	127,435	59%	1 January 2022
A Denver	4,214	–	–	4,214	922,697	381%	
C McLoughlin, AM	1,650	250	–	1,900	416,024	168%	
B Robinson, AC	1,083	102	–	1,185	259,468	103%	
K Penrose[4]	177	778	–	955	209,107	77%	1 July 2022

[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 ($218.96), as at closing on the ASX up to 30 June 2023, times the number of shares.

[2] The shareholding requirement has been calculated using annualised contractual policy fees based on Board and Committee membership as at 30 June 2023 (excluding superannuation).

[3] M 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.

[4] K Penrose was appointed to the Board on 1 July 2022 and in accordance with the policy has until 1 July 2025 to build her shareholding.

Financial report

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 2023, 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), Y Allen, AM, G Boreham, AM, Sir M Daniell, KNZM, M del Prado, A Denver, D Howitt, 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 of the Company during the financial year were:

	Board of Directors		Audit and Risk Committee		People and Culture Committee[1]		Medical Science Committee		Nomination Committee		Product and Services Innovation Committee[2]	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended	Held	Attended	Held	Attended
A Deans	12	12	–	–	–	–	–	–	2	2	–	–
Y Allen, AM	12	12	4	4	5	4	–	–	2	2	3	2
G Boreham, AM	12	12	4	4	5	5	–	–	2	2	3	3
Sir M Daniell, KNZM	12	12	4	4	–	–	3	3	2	2	3	3
M del Prado	12	12	–	–	–	–	3	3	2	2	3	3
A Denver	12	12	4	4	–	–	3	3	2	2	3	3
D Howitt	12	12	–	–	–	–	3	3	–	–	3	3
C McLoughlin, AM	12	12	4	4	5	5	–	–	2	2	3	3
K Penrose	12	12	4	4	2	2	–	–	2	2	3	3
Prof B Robinson, AC	12	11	–	–	5	5	3	3	2	2	3	3

1. Karen Penrose was appointed as a Member of People and Culture Committee from 17 February 2023.

2 Formerly known as the Technology and Innovation Committee.

The Chair of the Board attends committee meetings by invitation as a matter of course. Often directors also attend meetings of committees of which they are not a member. These attendances are not reflected in the table above.

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 62 to 67 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 2023 ordinary	1.55	102.0	35% Franked	14 April 2023
Final 2022 ordinary	1.45	95.4	40% Franked	17 October 2022
Total amount	**3.00**	**197.4**		
Since the end of the financial year, the directors declared the following dividend:				
Final 2023 ordinary	1.75	114.9	70% Franked	11 October 2023
Total amount	**1.75**	**114.9**		

The financial effect of the 2023 final dividend will be recognised in the subsequent financial year as it was declared after 30 June 2023.

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 and 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 and 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	
	2023 $	2022 $
Audit and assurance services		
Auditors of the Company - KPMG:		
– audit and review of consolidated financial reports	1,552,259	1,435,765
– audit and review of subsidiary financial reports	642,016	614,887
– other assurance services	18,715	17,824
Total audit and assurance services	**2,212,990**	**2,068,476**
Other services		
Auditors of the Company - KPMG:		
– taxation compliance and advisory services	1,334,339	977,589
– other advisory services	98,407	68,824
Total other services	**1,432,746**	**1,046,413**

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 2023 for the Cochlear Limited Board, the CEO & President and other key management personnel, and changes for the financial year ending 30 June 2024, are included in the Remuneration report on pages 86 to 107 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 2023, refer above.

Lead auditor's independence declaration

The lead auditor's independence declaration is set out on page 112 and forms part of the Directors' report for the financial year ended 30 June 2023.

Rounding off

The Company is of a kind referred to in Australian Securities and Investments Commission (ASIC) (Rounding in Financial/Directors' Reports) Instrument 2016/191 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 15th day of August 2023.

Signed in accordance with a resolution of the directors:

Director

Director

KPMG

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 2023 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.

[redacted]

KPMG

Julian McPherson,
Partner
Sydney, 15 August 2023

Income statement

FOR THE YEAR ENDED 30 JUNE 2023

	Note	2023 $m	2022 $m
Revenue	2.2	1,936.1	1,648.3
Cost of sales	2.3	(488.0)	(411.0)
Gross profit		**1,448.1**	**1,237.3**
Selling, marketing and general expenses		(606.5)	(498.7)
Research and development expenses		(244.9)	(210.7)
Administration expenses		(203.9)	(159.0)
Other income	2.4	13.5	31.1
Other expenses	2.3	(16.6)	–
Share of losses on equity-accounted investments	5.5	(0.2)	–
Results from operating activities		**389.5**	**400.0**
Finance income – interest		16.5	2.4
Finance expense – interest		(9.4)	(8.6)
Net finance income/(expense)		**7.1**	**(6.2)**
Profit before income tax		**396.6**	**393.8**
Income tax expense	3.1	(96.0)	(104.7)
Net profit		**300.6**	**289.1**
Basic earnings per share (cents)	2.5	457.0	439.6
Diluted earnings per share (cents)	2.5	456.1	439.6

The notes on pages 118 to 148 are an integral part of these consolidated financial statements.

Statement of comprehensive income

	2023 $m	2022 $m
Net profit	**300.6**	**289.1**
Other comprehensive income/(loss)		
Items that will not be reclassified subsequently to the income statement:		
Defined benefit plan actuarial (loss)/gain	(3.1)	5.1
Financial investments measured at fair value through other comprehensive income, net of tax	(20.0)	(83.8)
Total items that will not be reclassified subsequently to the income statement	**(23.1)**	**(78.7)**
Items that are or may be reclassified subsequently to the income statement:		
Foreign currency translation differences	7.3	(6.2)
Effective portion of changes in fair value of cash flow hedges, net of tax	(16.3)	(16.9)
Net change in fair value of cash flow hedges transferred to the income statement, net of tax	13.7	(5.0)
Total items that are or may be reclassified subsequently to the income statement	**4.7**	**(28.1)**
Total other comprehensive loss, net of tax	**(18.4)**	**(106.8)**
Total comprehensive income	**282.2**	**182.3**

Balance sheet

AS AT 30 JUNE 2023

	Note	2023 $m	2022 $m
Assets			
Cash and cash equivalents	2.7(a)	555.5	629.3
Trade and other receivables	6.4(b)	437.5	348.5
Forward exchange contracts		3.7	8.4
Inventories	5.1	311.5	270.2
Current tax assets	3.2	20.0	41.9
Prepayments		33.3	28.7
Total current assets		**1,361.5**	**1,327.0**
Trade and other receivables		0.9	–
Forward exchange contracts		1.6	2.4
Property, plant and equipment	5.2	276.7	260.2
Intangible assets	5.3	444.1	392.5
Investments	5.5	93.8	119.1
Other financial assets	5.5	90.8	68.8
Equity-accounted investments	5.5	3.5	–
Deferred tax assets	3.2	125.3	116.1
Right of use assets	5.8	170.5	179.0
Total non-current assets		**1,207.2**	**1,138.1**
Total assets		**2,568.7**	**2,465.1**

	Note	2023 $m	2022 $m
Liabilities			
Trade and other payables		270.4	232.4
Forward exchange contracts		20.6	22.3
Loans and borrowings	6.3	–	42.6
Current tax liabilities	3.2	17.5	15.2
Employee benefit liabilities	4.2	146.4	101.6
Provisions	5.6	22.3	22.7
Deferred revenue		61.6	54.7
Lease liabilities	6.4(c)	39.2	36.1
Total current liabilities		**578.0**	**527.6**
Trade and other payables		–	0.3
Forward exchange contracts		6.4	6.5
Employee benefit liabilities	4.2	9.7	6.4
Provisions	5.6	35.1	33.2
Deferred tax liabilities	3.2	18.3	22.4
Deferred revenue		9.8	7.8
Lease liabilities	6.4(c)	162.6	175.2
Total non-current liabilities		**241.9**	**251.8**
Total liabilities		**819.9**	**779.4**
Net assets		**1,748.8**	**1,685.7**
Equity			
Share capital		1,250.3	1,276.6
Reserves		(56.9)	(46.2)
Retained earnings		555.4	455.3
Total equity		**1,748.8**	**1,685.7**

The notes on pages 118 to 148 are an integral part of these consolidated financial statements.

Statement of changes in equity

FOR THE YEAR ENDED 30 JUNE 2023

$m	Issued capital	Treasury share reserve	Translation reserve	Hedging reserve	Fair value reserve	Share-based payment reserve	Retained earnings	Total equity
2023								
Balance at 1 July 2022	**1,276.6**	**–**	**(63.6)**	**(12.8)**	**(46.0)**	**76.2**	**455.3**	**1,685.7**
Total comprehensive income/(loss)								
Net profit	–	–	–	–	–	–	300.6	300.6
Other comprehensive income/(loss)								
Defined benefit plan actuarial loss	–	–	–	–	–	–	(3.1)	(3.1)
Financial investments measured at fair value through other comprehensive income, net of tax	–	–	–	–	(20.0)	–	–	(20.0)
Foreign currency translation differences	–	–	7.3	–	–	–	–	7.3
Effective portion of changes in fair value of cash flow hedges, net of tax	–	–	–	(16.3)	–	–	–	(16.3)
Net change in fair value of cash flow hedges transferred to the income statement, net of tax	–	–	–	13.7	–	–	–	13.7
Total other comprehensive income/(loss)	–	–	**7.3**	**(2.6)**	**(20.0)**	–	**(3.1)**	**(18.4)**
Total comprehensive income/(loss)	**–**	**–**	**7.3**	**(2.6)**	**(20.0)**	**–**	**297.5**	**282.2**
Transactions with owners, recorded directly in equity								
Shares issued	0.1	–	–	–	–	–	–	0.1
Treasury shares acquired	–	(40.3)	–	–	–	–	–	(40.3)
Shares cancelled	(26.4)	26.4	–	–	–	–	–	–
Share-based payment transactions	–	–	–	–	–	15.9	–	15.9
Deferred tax recognised in equity	–	–	–	–	–	2.6	–	2.6
Dividends to shareholders	–	–	–	–	–	–	(197.4)	(197.4)
Balance at 30 June 2023	**1,250.3**	**(13.9)**	**(56.3)**	**(15.4)**	**(66.0)**	**94.7**	**555.4**	**1,748.8**

The notes on pages 118 to 148 are an integral part of these consolidated financial statements.

Statement of changes in equity

FOR THE YEAR ENDED 30 JUNE 2023

$m	Issued capital	Treasury share reserve	Translation reserve	Hedging reserve	Fair value reserve	Share-based payment reserve	Retained earnings	Total equity
2022								
Balance at 1 July 2021	**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**

The notes on pages 118 to 148 are an integral part of these consolidated financial statements.

Statement of cash flows

FOR THE YEAR ENDED 30 JUNE 2023

	Note	2023 $m	2022 $m
Cash flows from operating activities			
Cash receipts from customers		1,859.6	1,611.8
Cash paid to suppliers and employees		(1,438.5)	(1,215.0)
Grant and other income received	2.4	13.5	12.0
Interest received		16.5	2.4
Interest paid		(9.4)	(8.6)
Income taxes paid	3.1	(79.3)	(26.1)
Net cash provided by operating activities	2.7(b)	**362.4**	**376.5**
Cash flows from investing activities			
Acquisition of leasehold improvements, plant and equipment and land and buildings	5.2	(50.0)	(44.5)
Acquisition of IT systems	5.3	(22.5)	(6.3)
Acquisition of other intangible assets	5.3	(23.4)	(26.4)
Acquisition of investments and other financial assets	5.5	(29.8)	(61.7)
Net cash (used in)/provided by investing activities		**(125.7)**	**(138.9)**
Cash flows from financing activities			
Repayments of borrowings		(41.3)	–
Payments of lease liability principal		(31.4)	(25.6)
Outlay from exercise of share options and performance rights		(10.7)	(1.1)
Payments for share buyback		(29.6)	–
Dividends paid	2.6	(197.4)	(194.0)
Net cash used in financing activities		**(310.4)**	**(220.7)**
Net increase in cash and cash equivalents		**(73.7)**	**16.9**
Cash and cash equivalents at 1 July		629.3	609.6
Effect of exchange rate fluctuations on cash held		(0.1)	2.8
Cash and cash equivalents at 30 June		**555.5**	**629.3**

The notes on pages 118 to 148 are an integral part of these consolidated financial statements.

Notes to the financial statements

FOR THE YEAR ENDED 30 JUNE 2023

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 2023 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 15 August 2023.

(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 and 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 the Group 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

Cochlear 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.

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 Chief Executive Officer and President, who is also the chief operating decision maker.

Information about reportable segments

Revenues	2023 $m	2022 $m
Cochlear implants	1,131.4	935.2
Services (sound processor upgrades and other)	584.4	503.9
Total cochlear implants	**1,715.8**	**1,439.1**
Acoustics	239.9	202.0
Sales revenue	**1,955.7**	**1,641.1**
Foreign exchange (loss)/gain on hedged sales	(19.6)	7.2
Revenue	**1,936.1**	**1,648.3**

2023	Americas	EMEA[1]	Asia Pacific	Corporate and other net expenses	Total
Profit or loss	$m	$m	$m	$m	$m
Revenue	978.3	639.4	338.0	(19.6)[2]	**1,936.1**
EBIT	523.8	292.5	104.9	(531.7)	**389.5**
Net finance income					**7.1**
Profit before income tax					**396.6**
Depreciation and amortisation	13.0	7.3	5.7	54.9	**80.9**
Write-down in value of inventories	1.9	1.4	0.3	1.7	**5.3**
Equity accounted losses	–	–	–	0.2	**0.2**

2022	Americas	EMEA[1]	Asia Pacific	Corporate and other net expenses	Total
Profit or loss	$m	$m	$m	$m	$m
Revenue	779.7	578.5	282.9	7.2[2]	**1,648.3**
EBIT	414.4	274.4	92.0	(380.8)	**400.0**
Net finance expense					**(6.2)**
Profit before income tax					**393.8**
Depreciation and amortisation	11.2	6.8	5.8	49.2	**73.0**
Write-down in value of inventories	0.7	1.1	0.3	11.1	**13.2**
Equity accounted losses	–	–	–	–	–

[1] Europe, Middle East and Africa.

[2] Foreign exchange (loss)/gain on hedged sales

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

2022	Americas	EMEA	Asia Pacific	Corporate and manufacturing	Total
Assets and liabilities	$m	$m	$m	$m	$m
Assets	350.8	281.2	228.9	1,604.2	**2,465.1**
Liabilities	172.7	93.3	57.0	456.4	**779.4**
Acquisition of non-current assets	2.3	2.4	3.9	130.3	**138.9**

Cochlear Limited is domiciled in Australia and earns less than 5% of its sales revenue from external customers in Australia. Cochlear Limited has $385.1 million (2022: $333.0 million) of non-current assets (excluding financial instruments and deferred tax) in Australia, including Australian based manufacturing facilities.

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 Cochlear'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).

	2023 $m	2022 $m
Sale of goods before hedging	1,921.0	1,608.5
Foreign exchange (loss)/gain on hedged sales	(19.6)	7.2
Revenue from sale of goods	**1,901.4**	**1,615.7**
Rendering of services	34.7	32.6
Total revenue	**1,936.1**	**1,648.3**

2.3 Expenses

	Note	2023 $m	2022 $m
(a) Cost of sales			
Carrying amount of inventories recognised as an expense		476.1	392.8
Write-down in value of inventories		5.3	13.1
Other		6.6	5.1
Total cost of sales		**488.0**	**411.0**
(b) Other expenses			
Net foreign exchange loss		10.2	–
Fair value change in investments through profit or loss	5.5	6.4	–
Total other expenses		**16.6**	**–**

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).

	Note	2023 $m	2022 $m
Grant received or due and receivable		2.2	2.7
Fair value change in investments through profit or loss	5.5	–	17.3
Release of contingent consideration		–	1.7
Net foreign exchange gain		–	0.1
Other income		11.3	9.3
Total other income		**13.5**	**31.1**

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:

	2023	2022
Net profit attributable to equity holders of the parent entity	$300,559,000	$289,104,000
Weighted average number of ordinary shares (basic):		
Issued ordinary shares at 1 July (number)	65,775,339	65,744,078
Effect of options, performance shares and performance rights exercised (number)	4,803	26,291
Effect of shares issued under Employee Share Plan (number)	238	70
Effect of shares cancelled from share buy-back (number)	(16,378)	–
Effect of shares purchased and held as treasury stock	(1,559)	–
Weighted average number of ordinary shares (basic) at 30 June	**65,762,443**	**65,770,439**
Basic earnings per share (cents)	**457.0**	**439.6**

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:

	2023	2022
Net profit attributable to equity holders of the parent entity	$300,559,000	$289,104,000
Weighted average number of ordinary shares (diluted):		
Weighted average number of shares (basic) (number)	65,762,443	65,770,439
Effect of options, performance shares and performance rights unvested (number)	134,410	207
Weighted average number of ordinary shares (diluted) at 30 June	**65,896,853**	**65,770,646**
Diluted earnings per share (cents)	**456.1**	**439.6**

At 30 June 2023, 136,622 options (2022: 180,048) were excluded from the diluted weighted average number of ordinary shares calculation because their effect would have been antidilutive.

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:				
2023				
Interim 2023 ordinary	1.55	102.0	35% Franked	14 April 2023
Final 2022 ordinary	1.45	95.4	40% Franked	17 October 2022
Total amount	**3.00**	**197.4**		
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**		

	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 2023 ordinary	1.75	114.9	70% Franked	11 October 2023
Total amount	**1.75**	**114.9**		

The financial effect of the 2023 final dividend will be recognised in the subsequent financial year as it was declared after 30 June 2023.

Dividend franking account

	2023	2022
	$m	$m
Total franking account balance at 30%	**7.4**	**–**

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.

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 2.84% (2022: 0.39%) per annum.

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

	2023	2022
	$m	$m
Net profit	300.6	289.1
Add item classified as investing activities:		
Loss on disposal of property, plant and equipment	0.8	0.6
Add/(less) non-cash items:		
Depreciation and amortisation	80.9	73.0
Release of contingent consideration	–	(1.7)
Fair value change in investments measured at fair value through profit or loss	6.4	(17.3)
Equity settled share-based payment transactions	15.9	10.8
Share of losses on equity accounted investments	0.2	–
Net cash provided by operating activities before changes in assets and liabilities	**404.8**	**354.5**
Changes in assets and liabilities:		
Change in trade and other receivables	(89.0)	(52.2)
Change in inventories	(41.3)	(54.1)
Change in prepayments	(4.6)	(7.5)
Change in deferred tax assets/liabilities	(14.8)	45.0
Change in trade and other payables	37.7	29.1
Change in current tax assets/liabilities	24.2	29.6
Change in employee benefit liabilities	46.1	8.0
Change in provisions	1.5	5.5
Change in deferred revenue	8.9	15.7
Effect of movements in foreign exchange	(11.1)	2.9
Net cash provided by operating activities	**362.4**	**376.5**

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

	2023 $m	2022 $m
Current income tax expense		
Current year	110.8	50.4
Adjustment for prior years	(2.2)	6.7
Total current income tax expense	**108.6**	**57.1**
Deferred income tax expense		
Origination and reversal of temporary differences	(9.5)	(14.3)
Net utilisation/(recognition) of tax losses	(2.3)	61.2
Current year deferred income tax expense	**(11.8)**	**46.9**
Adjustment for prior years	(0.8)	0.7
Total deferred income tax expense	**(12.6)**	**47.6**
Total income tax expense recognised in the Income statement	**96.0**	**104.7**

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

	2023 $m	2022 $m
Profit before income tax	**396.6**	**393.8**
Tax at the Australian tax rate of 30% (2022: 30%)	119.0	118.1
(Less)/add adjustments for:		
Research and development allowances	(21.1)	(16.5)
Net non-deductible/(non-assessable) items	5.6	0.3
Effect of tax rates in foreign jurisdictions	(4.5)	(4.6)
	99.0	**97.3**
Other adjustment for prior years	(3.0)	7.4
Income tax expense on profit before income tax	**96.0**	**104.7**

Income tax recognised in Statement of changes in equity

	Note	2023 $m	2022 $m
Income tax on:			
Fair value (losses)/gains on investments	3.2	(3.0)	(34.1)
Cash flow hedges	3.2	(1.1)	(9.4)
Share-based payments		(2.6)	1.9
Total income tax recognised in Statement of changes in equity		**(6.7)**	**(41.6)**

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

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

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

	2023 $m	2022 $m
Profit before income tax (excluding dividends from wholly-owned foreign subsidiaries)	272.2	336.9
Add: Dividends from wholly-owned foreign subsidiaries	23.1	95.5
Profit before income tax	**295.3**	**432.4**
Tax at the Australian tax rate of 30% (2022: 30%)	88.6	129.7
(Less)/add adjustments for:		
Research and development allowances	(20.0)	(15.8)
Net non-deductible items	5.9	2.8
Controlled foreign company income	0.7	2.3
Exempt foreign sourced dividends from wholly-owned subsidiaries	(6.9)	(28.7)
	68.3	**90.3**
Adjustment for prior years	(4.0)	0.7
Income tax expense on profit before income tax	**64.3**	**91.0**

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.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse. 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 at each reporting date and are reduced if it is no longer probable that the related tax benefit will be realised.

Movement in deferred tax balances

2023	Opening balance	Recognised in the Income statement	Recognised in other comprehensive income	Recognised in equity	Closing balance	Deferred tax assets	Deferred tax liabilities
Property, plant and equipment	1.5	1.3	–	–	2.8	5.7	(2.9)
Intangible assets	7.2	(18.1)	–	–	(10.9)	2.2	(13.1)
Inventories	53.6	(4.2)	–	–	49.4	49.4	–
Provisions	33.4	3.2	–	–	36.6	36.6	–
Deferred revenue	5.4	2.2	–	–	7.6	7.6	–
Forward exchange contracts	5.5	–	1.1	–	6.6	6.6	–
Tax losses and offsets carried forward	–	2.3	–	–	2.3	2.3	–
Other	(12.9)	25.1	3.0	(2.6)	12.6	27.2	(14.6)
Deferred tax assets/(liabilities) before set-off	**93.7**	**11.8**	**4.1**	**(2.6)**	**107.0**	**137.6**	**(30.6)**
Set-off of tax						(12.3)	12.3
Net tax assets/(liabilities)						**125.3**	**(18.3)**

2022	Opening balance	Recognised in the Income statement	Recognised in other comprehensive income	Recognised in equity	Closing balance	Deferred tax assets	Deferred tax liabilities
Property, plant and equipment	0.7	0.8	–	–	1.5	4.9	(3.4)
Intangible assets	3.6	3.6	–	–	7.2	10.3	(3.1)
Inventories	39.0	14.6	–	–	53.6	53.6	–
Provisions	28.8	4.6	–	–	33.4	33.6	(0.2)
Deferred revenue	4.8	0.6	–	–	5.4	5.4	–
Forward exchange contracts	(3.9)	–	9.4	–	5.5	5.6	(0.1)
Tax losses and offsets carried forward	61.2	(61.2)	–	–	–	–	–
Other	(32.8)	(9.9)	34.1	(4.3)	(12.9)	17.2	(30.1)
Deferred tax assets/(liabilities) before set-off	**101.4**	**(46.9)**	**43.5**	**(4.3)**	**93.7**	**130.6**	**(36.9)**
Set-off of tax						(14.5)	14.5
Net tax assets/(liabilities)						**116.1**	**(22.4)**

Unrecognised deferred tax liabilities

At 30 June 2023, a deferred tax liability of $2.5 million (2022: $49.4 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.

Future tax developments

The Organisation for Economic Co-operation and Development's (OECD)/G20 Inclusive Framework on Base Erosion and Profit Shifting (BEPS) addresses the tax challenges arising from the digitalisation of the global economy. The BEPS Pillar Two model rules seek to apply a 15% global minimum tax to individual jurisdictions across the globe and is expected to apply to the Group from 1 July 2024. As at 30 June 2023 the Group has operations in the United Kingdom which has substantively enacted the Pillar Two legislation and it is anticipated that Australia will be substantively enacting this legislation before 1 July 2024 (with the relevant provisions rules being effective for income years on or after 1 January 2024).

Cochlear has operations globally which may give rise to an exposure to top-up taxes and is in the process of evaluating the cash tax implications of the Pillar Two global minimum tax rules. Cochlear has applied the mandatory temporary exception under AASB 2023-2 Amendments to Australian Accounting Standards – International Tax Reform – Pillar Two Model Rules issued by the Australian Accounting Standards Board in June 2023. The amendments provide a temporary mandatory exception from deferred tax accounting for the Pillar Two global minimum top-up tax. The mandatory exception applies retrospectively. The retrospective application has had no impact on Cochlear's financial statements as no new legislation implementing the top-up tax was enacted or substantively enacted at the end of the comparative period in any jurisdiction in which the Cochlear operates and no related deferred taxes were recognised at that date.

Current tax assets and liabilities

The current tax assets for the Consolidated Entity of $20.0 million (2022: $41.9 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 $17.5 million (2022: $15.2 million) represent the amount of income taxes payable in respect of current and prior financial years.

4. Employee benefits

4.1 Employee expenses

	2023 $m	2022[1] $m
Salaries and wages	624.2	534.2
Contributions to superannuation plans	42.6	37.4
Increase in leave liabilities	5.2	5.0
Equity settled share-based payment transactions	15.9	10.8
Total employee expenses	**687.9**	**587.4**

[1] Restated

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

Cochlear has defined benefit plans that cover, in aggregate, 81 employees in two countries (2022: 84 employees). Cochlear contributed cash of $1.9 million (2022: $1.5 million) to defined benefit plans in the year ended 30 June 2023 and expects to contribute $1.9 million in the year ending 30 June 2024.

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.

	2023 $m	2022 $m
Current		
Provision for long service leave	15.7	14.7
Provision for annual leave	43.9	40.1
Provision for short-term incentives and sales commissions	86.8	46.8
Total current employee benefit liabilities	**146.4**	**101.6**
Non-current		
Provision for long service leave	6.8	6.3
Defined benefit plan	2.9	0.1
Total non-current employee benefit liabilities	**9.7**	**6.4**
Total employee benefit liabilities	**156.1**	**108.0**

4.3 Share-based payments

Since 1 July 2013, the Company has granted 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 2023, 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]	$217.28	51,802	9,546	5 years
October 2020[1]	$206.06	54,731	12,332	5 years
September 2021[2]	N/A	–	38,513	2 years
October 2021[1]	$232.52	69,135	16,929	5 years
October 2021[3]	N/A	–	3,281	2 years
October 2022[1]	$216.33	67,487	21,357	7 years
September 2022[2]	N/A	–	33,887	2 years
October 2022[3]	N/A	–	6,598	2 years
Total		**243,155**	**142,443**	

[1] Options and performance rights offered under long-term incentives.
[2] Performance rights offered under deferred short-term incentives.
[3] Services rights offered under the CEIP.

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 over four years against the ASX 100 with a minimum TSR at the 50th percentile 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:

	19 October 2022 (4 years)		29 September 2022		20 October 2021 (4 years)		30 September 2021	
	TSR-based conditions	EPS performance-based conditions	Deferred STI service-based conditions	Rights service-based conditions	TSR-based conditions	EPS performance-based conditions	Deferred STI service-based conditions	Rights service-based conditions
Fair value of options at grant date	$54.08	$64.39	N/A	N/A	$45.46	$54.45	N/A	N/A
Fair value of performance rights at grant date	$130.71	$203.44	$209.11	$209.11	$125.69	$222.32	$224.60	$224.60
Share price at valuation date	$214.85	$214.85	$214.85	$214.85	$226.85	$226.85	$226.85	$226.85
Option exercise price	$216.33	$216.33	N/A	N/A	$232.52	$232.52	N/A	N/A
Expected volatility[1]	29.81%	29.81%	26.68%	26.68%	30.87%	30.87%	38.06%	38.06%
Option/right life (years)	4 - 7	4 - 7	2	2	4 - 5	4 - 5	2	2
Expected dividend yield	1.37%	1.37%	1.37%	1.37%	0.51%	0.51%	0.51%	0.51%
Risk free interest rate[2]	3.28%	3.28%	3.28%	3.28%	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 number, and weighted average exercise prices of, options are as follows:

	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
	2023	2023	2022	2022
Outstanding at 1 July	**219.76**	**204,279**	**$209.03**	**208,331**
Forfeited	219.61	(28,611)	$205.88	(70,634)
Exercised	–	–	$202.84	(13,658)
Granted	216.33	67,487	$232.52	80,240
Outstanding at 30 June	**218.82**	**243,155**	**$219.76**	**204,279**
Exercisable at 30 June	$217.28	51,802	$217.28	24,231

No options were exercised in 2023 (2022: 13,658 options were exercised). The weighted average market share price on the ASX at date of exercise was Nil (2022: $237.25). The weighted average remaining contractual life of options outstanding at the end of the year is three years (2022: three years).

ShareWave Employee Share Plan

Since 2021, Cochlear launched ShareWave, replacing the previous 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 service conditions and the employee retaining the purchased shares up to the vesting date of the matching benefit. 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 2023, the Company issued 1,195 shares under the plan (2022: 1,075 shares). The plan ceased in effect following the launch of ShareWave with the current year being the last plan to vest.

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, AM, G Boreham, AM, Sir M Daniell, KNZM, M del Prado, A Denver, C McLoughlin, AM, K Penrose and Prof B Robinson, AC.

Executive KMP

D Howitt, J Janssen and S Sayers.

Former Executive KMP

L Aubert, A Bishop, R Brook

The three Regional Presidents (Lisa Aubert, Anthony Bishop, and Richard Brook) are no longer included as KMP from 1 July 2022 due to structural changes and the global integration of most support functions over time resulting in these roles no longer meeting the criteria of planning, directing, or controlling the activities of Cochlear as a whole.

Key management personnel disclosures

The KMP compensation is included in employee expenses as follows:

	Short-term employee $	Post-employment $	Other long-term benefits $	Share-based payments $	End of service $	Total $
2023	9,715,096	273,366	34,212	3,755,925	–	**13,778,599**
2022[1]	12,387,271	432,680	82,478	4,009,601	298,694	**17,210,724**

[1] Includes former executive KMPs who were not KMPs during FY23.

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 86 to 107.

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
2023	126.4	37.5	147.6	**311.5**
2022	99.9	25.2	145.1	**270.2**

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	
	2023 $m	2022 $m	2023 $m	2022 $m	2023 $m	2022 $m	2023 $m	2022 $m
At cost	77.6	70.9	388.6	347.4	73.9	75.5	**540.1**	**493.8**
Accumulated depreciation	(44.7)	(38.3)	(215.1)	(192.7)	(3.6)	(2.6)	**(263.4)**	**(233.6)**
Net book value	**32.9**	**32.6**	**173.5**	**154.7**	**70.3**	**72.9**	**276.7**	**260.2**
Reconciliations of the carrying amounts are:								
Opening balance	32.6	34.0	154.7	133.5	72.9	72.0	**260.2**	**239.5**
Additions	5.8	3.4	45.2	41.1	0.3	–	**51.3**	**44.5**
Disposals	–	–	(0.7)	(0.6)	–	–	**(0.7)**	**(0.6)**
Depreciation	(6.4)	(6.2)	(24.7)	(22.5)	(1.1)	(1.1)	**(32.2)**	**(29.8)**
Effect of movements in foreign exchange	0.9	1.4	(1.0)	3.2	(1.8)	2.0	**(1.9)**	**6.6**
Net book value	**32.9**	**32.6**	**173.5**	**154.7**	**70.3**	**72.9**	**276.7**	**260.2**

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 systems

IT systems 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 systems 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 systems	Acquired technology, patents and licences	Other intangible assets	Total
	$m	$m	$m	$m	$m
2023					
At cost	256.1	136.3	206.8	48.1	**647.3**
Accumulated amortisation and impairment losses	–	(89.7)	(86.8)	(26.7)	**(203.2)**
Net book value	**256.1**	**46.6**	**120.0**	**21.4**	**444.1**
Reconciliations of the carrying amounts are:					
Opening balance	257.1	33.0	79.2	23.2	**392.5**
Additions	–	22.5	46.4	1.4	**70.3**
Amortisation	–	(9.0)	(5.4)	(4.0)	**(18.4)**
Effect of movements in foreign exchange	(1.0)	0.1	(0.2)	0.8	**(0.3)**
Net book value	**256.1**	**46.6**	**120.0**	**21.4**	**444.1**
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**

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 the higher of its value in use and its fair value less costs of disposal.

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 group of CGUs are:

	Americas $m	EMEA $m	Asia Pacific $m	Total $m
2023	176.9	69.8	9.4	**256.1**
2022	178.1	69.5	9.5	**257.1**

The recoverable amount of each CGU is based on value-in-use calculations. 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.

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.

Revenue is based on near-term forecasts and Cochlear’s expectation of medium and long-term growth rates. Cost of sales, R&D investment and net margin are based on long-term expectations. Year 1 cash flows are based on Cochlear’s budget for the year ending 30 June 2024, which is aligned with Cochlear’s outlook statement.

Cash flows for year six onwards are extrapolated using a terminal growth rate of 3.0% (2022: 3.0%) per annum which is consistent with long-term growth rates. The pre-tax discount rate for each CGU is as follows: Americas 9.4% (2022: 7.0%), EMEA 9.3% (2022: 7.1%) and Asia Pacific 9.7% (2022: 7.5%).

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 allocated 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.

5.4 Proposed acquisition of Oticon Medical

In April 2022, Cochlear agreed to acquire Oticon Medical, the hearing implants business of Demant A/S, a Danish Company. The proposed transaction which was subject to regulatory approval included the acquisition of both Demant’s cochlear implant and bone conduction implants businesses.

In June 2023, the UK Competition and Markets Authority (CMA) published its final report in relation to the proposed acquisition which prohibited the acquisition of the bone conduction implants business due to competition concerns. The CMA did not raise competition concerns in relation to the cochlear implant business which is permitted to proceed, subject to the CMA’s approval of the terms of all agreements related to the transfer of the cochlear implant business to Cochlear.

Cochlear and Demant are pursuing a transfer of Oticon Medical’s cochlear implant business at a zero headline purchase price ("CI Carve Out Transaction”). The CI Carve Out Transaction remains conditional on satisfaction of customary closing conditions and receipt of approvals from the CMA, Australian Competition and Consumer Commission and the European Commission.

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

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, EpiMinder, Seer Medical and Precisis. 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.

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	Equity-accounted investments $m
Balance at 1 July 2022	119.1	68.8	–
Additions	4.1	22.0	3.7
Fair value loss in investments measured at fair value through profit or loss	(6.4)	–	–
Fair value through other comprehensive income (before tax)	(23.0)	–	–
Share of losses on equity-accounted investments	–	–	(0.2)
Balance at 30 June 2023	**93.8**	**90.8**	**3.5**

At 30 June 2023, $103.8 million (2022: $88.2 million) of Investments and Other financial assets are measured at fair value through profit or loss. The remaining $80.8 million (2022: $99.7 million) is measured at fair value through other comprehensive income including Nyxoah $59.2 million (2022: $68.2 million) and Seer Medical $19.6 million (2022: $28.7 million).

Valuation of Level 3 investments and other financial assets

Cochlear's strategic investments in Saluda Medical, EpiMinder, Seer Medical and Precisis are classified as Level 3 financial instruments. Level 3 in the fair value hierarchy uses unobservable inputs when measuring fair value (refer to section 6.4 for further details).

At 30 June 2023, Saluda Medical and EpiMinder were valued using a Market comparison technique. For these investments, the fair values are based on the latest market price per latest fundraising values and using the price per share from the latest financing round which are considered unobservable inputs. The estimated fair value would increase (decrease) if the prices per the latest financing round were higher (lower).

Seer Medical and Precisis were valued using a discounted cash flow. The valuation model considers the present value of the net cash flows expected to be generated by the investees and uses growth rate and discount rate assumptions which are considered unobservable inputs. The estimated fair value would increase (decrease) if growth rates were higher (lower) and discount rates were lower (higher).

The following table summarises the movement in Level 3 investments during the period:

	Investments $m	Other financial assets $m
Balance at 1 July 2022	50.6	68.8
Additions	–	22.0
Fair value loss in investments measured at fair value through profit or loss	(6.4)	–
Fair value through other comprehensive income (before tax)	(9.9)	–
Balance at 30 June 2023	**34.3**	**90.8**

At 30 June 2023, $103.8 million (2022: $88.2 million) of Level 3 Investments and Other financial assets are measured at fair value through profit or loss and $21.3 million (2022: $31.2 million) measured at fair value through other comprehensive income.

A 10% increase/(decrease) in the fair value of level 3 valuations would have a $10.4 million gain/(loss) on P&L and $2.1 million gain/(loss) on OCI.

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 and undiluted basis, exceeding 20% with the interest held in shares (4.3%) being classified as an associate from December 2022. Cochlear has recognised a loss of $0.2 million which represents Cochlear's proportionate share of Precisis AG's net loss since being classified as an associate.

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.

2023	Warranties	Legal and insurance	Product recall	Make good lease costs	Total
	$m	$m	$m	$m	$m
Opening balance	37.5	7.0	7.4	4.0	**55.9**
Provision made	25.9	–	–	0.2	**26.1**
Provision used	(23.0)	(1.2)	(0.1)	(0.8)	**(25.1)**
Effect of movements in foreign exchange	0.3	–	–	0.2	**0.5**
Total provisions	**40.7**	**5.8**	**7.3**	**3.6**	**57.4**
Represented by:					
Current	16.1	5.5	0.7	–	**22.3**
Non-current	24.6	0.3	6.6	3.6	**35.1**
Total provisions	**40.7**	**5.8**	**7.3**	**3.6**	**57.4**

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 from 2 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 has a present obligation and can reliably estimate 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 2023.

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 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 and in Note 5.4 *Proposed acquisition of Oticon Medical*. 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. The outcome of these discussions are not expected to result in a significant adverse outcome for Cochlear.

Claims made by the University of Pittsburgh in September 2021 and previously disclosed as a contingent liability have been discontinued.

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 payment claims and tax, customs and regulatory reviews, audits and investigations by governments, authorities and regulators. 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, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date less any lease incentives received.

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. The lease liability includes the lease of Cochlear Global Headquarters in Sydney, Australia until 2035.

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 2023, lease interest was $6.7 million (2022: $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 $38.5 million for the year ended 30 June 2023 (2022: $32.2 million).

The following table shows movements in the right of use assets during the year:

	Land and buildings $m	Other assets $m	Total $m
Balance at 1 July 2022	169.6	9.4	**179.0**
Additions	12.5	5.3	**17.8**
Remeasurement	2.1	–	**2.1**
Depreciation expense	(25.9)	(4.4)	**(30.3)**
Effect of movements in foreign exchange	1.8	0.1	**1.9**
Balance at 30 June 2023	**160.1**	**10.4**	**170.5**

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	
	2023	**2022**
On issue 1 July – fully paid	**65,775,339**	**65,744,078**
Issued under Employee Share Plan	450	236
Issued from exercise of APAC Equity Plan	1,195	1,075
Issued from the exercise of performance rights	4,665	29,950
Shares cancelled from share buy-back	(110,000)	–
On issue 30 June – fully paid	**65,671,649**	**65,775,339**

For the FY20-22 LTI plan, 0% vested based on the performance over 3 years period (FY20-FY22), as result of it, nil shares were purchased under the plan in 2023 financial year (2022: 16,766 shares), and 450 shares were issued to employees under the Employee Share Plan (2022: 236 shares).

The on-market share buy-back commenced on 8 March 2023. For the financial year ended 30 June 2023, 110,000 shares were cancelled out of the 124,000 shares bought back on market.

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.

Treasury shares reserve

The reserve comprises the cost of the Cochlear Limited's shares held by the Group.

When shares recognised as equity are repurchased, the amount of the consideration paid, including directly attributable costs, are recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented in the treasury share reserve.

When treasury shares are cancelled, the consideration paid is transferred to share capital. When treasury shares are issued to employees to satisfy vesting of employee share plans the consideration paid is transferred to the share-based payment reserve.

At 30 June 2023, the Group held 58,658 of Cochlear Limited's shares (2022: nil)

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. As at 30 June 2023, Cochlear has no borrowings.

Debt establishment costs are capitalised and an amount of $1.5 million (2022: $1.0 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.

	2023 $m	2022 $m
Cash		
Cash and cash equivalents	555.5	629.3
Total cash	**555.5**	**629.3**
Less: Total borrowings		
Current	–	(42.6)
Total borrowings	–	**(42.6)**
Net cash	**555.5**	**586.7**

Gearing ratio

	2023 $m	2022 $m
Total borrowings	–	42.6
Total equity	1,748.8	1,685.7
Gearing ratio[1]	**0.0%**	**2.5%**

[1] Gearing ratio = Total borrowings/Total equity.

Financing arrangements

	Multi-option bank facilities		Other credit facilities		
	Unsecured bank loan $m	Bank guarantees[2] $m	Unsecured bank overdrafts $m	Unsecured bank loan $m	Bank guarantees[2] $m
2023					
Utilised at reporting date[1]	–	15.0	–	–	9.1
Not utilised at reporting date	350.0	5.0	3.0	–	3.7
Total facilities	**350.0**	**20.0**	**3.0**	–	**12.8**
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**

[1] Excludes the amount of $1.5 million (2022: $1.0 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 2023, 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	6-7 year term $m	Total facilities $m
Committed debt including guarantees	–	–	–	100.0	150.0	100.0	20.0	**370.0**

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

Other credit facilities

Unsecured bank overdrafts

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

Bank guarantees/Standby letters of credit

As at 30 June 2023, Cochlear had additional facilities denominated in USD, Euros (EUR), Sterling (GBP), Indian rupees and New Zealand dollars totaling AUD 12.8 million (2022: AUD 9.3 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, interest rate and equity price 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 Standard. 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 and Risk Committee on a regular basis.

The Audit and Risk Committee oversees how management monitors compliance with Cochlear's Risk Management Standard, 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 Management 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 Management 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 2023 was as follows, based upon notional amounts:

Amounts in foreign currency/millions	CHF	CNY	EUR	GBP	JPY	SEK	USD
2023							
Trade receivables	1.0	41.1	70.6	4.0	1,098.7	0.6	110.4
Trade payables	(1.2)	(44.4)	(28.3)	(7.7)	(60.4)	(64.9)	(25.7)
Balance sheet exposure	**(0.2)**	**(3.3)**	**42.3**	**(3.7)**	**1,038.3**	**(64.3)**	**84.7**
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**

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 2023, 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 2023, 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:

Amounts In AUD	Weighted average rate	<1 year $m	1-2 years $m
2023			
Buy CHF	0.611	(31.5)	–
Sell EUR	0.625	112.7	82.4
Sell GBP	0.554	29.5	18.5
Sell JPY	85.643	17.9	9.3
Buy SEK	7.095	(36.6)	–
Sell USD	0.690	313.3	154.8
Total		**405.3**	**265.0**
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**

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 2023 after tax by approximately AUD 10.8 million (2022: increased profit by AUD 9.5 million) and decreased Cochlear's equity by AUD 65.7 million (2022: decrease by AUD 58.8 million). A 10% weakening of the foreign currencies would have decreased Cochlear's profit for the year ended 30 June 2023 after tax by approximately AUD 9.8 million (2022: decreased profit by AUD 9.9 million) and increased equity by AUD 26.4 million (2022: increase by AUD 25.2 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 =	**2023**	**2022**	**2023**	**2022**
CHF	0.632	0.674	0.595	0.657
CNY	4.698	4.685	4.798	4.607
EUR	0.644	0.643	0.609	0.658
GBP	0.558	0.546	0.524	0.567
JPY	92.632	85.242	95.900	94.010
SEK	7.110	6.696	7.181	7.037
USD	0.675	0.724	0.662	0.688

Interest rate risk

Interest rate risk is managed through the management of net debt, interest expense and cost of finance. Cochlear is exposed to movements in the Australian interest rates in relation to corporate debt, leases and cash.

At the reporting date, the interest rate profile of Cochlear's interest-bearing financial instruments is financial assets of $555.5 million (2022: $629.3 million) and financial liabilities of $0.0 million (2022: $42.6 million).

Interest rate risk – Sensitivity analysis

At 30 June 2023, Cochlear was in a net financial asset position. A one percent increase in interest rates would have increased Cochlear's profit after income tax and equity by approximately $3.0 million (2022: increased profit by $3.9 million). A one percent decrease in interest rates would have decreased Cochlear's profit after income tax and equity by approximately $2.1 million (2022: reduced profit by $0.8 million).

(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. In determining concentrations of credit risk, management assesses the characteristics of customers which include governments, government-supported universities, clinics, major hospital chains and distributors. Concentrations of credit risk are determined by assessing different geographical locations of customers and the political and economic environments they are subject to, which may affect the timely recovery of certain receivables. The timing of government tenders and distributor sales directly impacts the concentration risk and management may obtain a letter of credit to minimize the risk. At 30 June 2023 the carrying amount of the receivable from Cochlear's most significant customer was $23.9 million ($25.4 million).

The maximum exposure to credit risk for trade receivables at the reporting date by geographic region was:

	Americas	EMEA	Asia Pacific	Total
	$m	**$m**	**$m**	**$m**
2023	129.8	178.7	79.9	**388.4**
2022	109.5	129.4	69.5	**308.4**

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.

The group uses an allowance matrix to measure Lifetime Expected Credit Losses of trade receivables from individual customers. Loss rates are calculated using a 'roll rate' method based on the probability of a receivable progressing through successive stages of ageing to write-off. Roll rates are calculated separately for exposures in different segments based on the following credit risk characteristics - geographic region, political and economic environments, and whether receivables are covered by a letter of credit. The movement in the allowance for impairment loss during the current year comprises of $1.4 million in allowance utilised and a further $0.4 million net remeasurement.

The ageing of Cochlear's trade receivables and allowance for impairment loss, are as follows:

	Trade receivables		Allowance for impairment losses		Trade receivables net of allowance for impairment losses	
	2023 $m	2022 $m	2023 $m	2022 $m	2023 $m	2022 $m
Trade receivables						
Not past due	309.8	246.8	(3.7)	(2.6)	306.1	244.2
Past due 1 - 60 days	44.8	36.8	(1.5)	(0.7)	43.3	36.1
Past due 61 - 180 days	28.8	15.8	(2.6)	(1.5)	26.2	14.3
Past due 181 - 360 days	9.8	19.9	(2.5)	(6.1)	7.3	13.8
Past due 361 days and over	10.4	6.1	(4.9)	(6.1)	5.5	–
	403.6	**325.4**	**(15.2)**	**(17.0)**	**388.4**	**308.4**
Other receivables – current	49.1	40.1	–	–	49.1	40.1
Trade and other receivables	**452.7**	**365.5**	**(15.2)**	**(17.0)**	**437.5**	**348.5**

Credit risk management – Cash deposits, term deposits and forward exchange contracts

The majority of Cochlear's cash 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	>5 years $m
2023							
SEK floating rate loan[1]	3.23 %	–	–	–	–	–	–
Trade and other payables	–	270.4	270.4	270.4	–	–	–
Lease liability	–	201.8	233.9	35.9	31.9	68.7	97.4
Total		**472.2**	**504.3**	**306.3**	**31.9**	**68.7**	**97.4**
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**

1. The SEK loan was fully repaid in May 2023 and therefore there was an effective interest rate on the drawn balance for 11 months.

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
2023				
Assets	5.3	5.4	3.7	1.7
Liabilities	(27.0)	(28.3)	(21.2)	(7.1)
Total	**(21.7)**	**(22.9)**	**(17.5)**	**(5.4)**
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)**

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

	2023 $	2022 $
Audit and assurance services		
Auditors of the Company - KPMG:		
– audit and review of consolidated financial reports	1,552,259	1,435,765
– audit and review of subsidiary financial reports	642,016	614,887
– other assurance services	18,715	17,824
Total audit and assurance services	**2,212,990**	**2,068,476**
Other services		
Auditors of the Company - KPMG:		
– taxation compliance and advisory services	1,334,339	977,589
– other advisory services	98,407	68,824
Total other services	**1,432,746**	**1,046,413**

7.2 Commitments

Capital expenditure commitments

As at 30 June 2023, Cochlear entered into contracts to purchase property, plant and equipment for $21.1 million (2022: $22.1 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 2023 %	Interest held 2022 %	Country of incorporation/ formation
Company				
Cochlear Limited				Australia
Controlled entities				
Cochlear AG		100	100	Switzerland
Cochlear Americas		100	100	USA
Cochlear Arabia Regional Headquarter LLC	(i)	100	100	Saudi Arabia
Cochlear Austria GmbH		100	100	Austria
Cochlear Benelux NV		100	100	Belgium
Cochlear Bone Anchored Solutions AB		100	100	Sweden
Cochlear Boulder LLC	(ii)	100	100	USA
Cochlear Brasil Ltda		100	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		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	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	(ii)	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)		100	100	Canada

(i) Incorporated on 30 June 2022.
(ii) Dormant.

7.4 Parent entity disclosure

At, and throughout the financial year ended, 30 June 2023, the parent company of Cochlear was Cochlear Limited.

	2023 $m	2022 $m
Result of the parent entity		
Net profit	238.8	329.1
Other comprehensive (loss)/income	(2.3)	(22.2)
Total comprehensive income	**236.5**	**306.9**
Financial position of the parent entity at year end		
Current assets	1,275.5	1,367.2
Total assets	**2,045.3**	**2,034.1**
Current liabilities	358.4	356.5
Total liabilities	**480.4**	**496.7**
Total equity of the parent entity comprising:		
Share capital	1,250.3	1,276.6
Treasury share reserve	(3.2)	–
Hedging reserve	(15.3)	(12.8)
Share-based payment reserve	94.7	76.2
Profit reserve	349.0	308.0
Accumulated losses	(110.6)	(110.6)
Total equity	**1,564.9**	**1,537.4**

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 5.4 *Proposed acquisition of Oticon Medical* and Note 5.7 *Contingent liabilities*.

Parent entity capital commitments for acquisition of plant and equipment

As at 30 June 2023, the parent entity entered into contracts to purchase plant and equipment for $19.6 million (2022: $16.8 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 2023 and 30 June 2022:

Income statement

	2023 $m	2022 $m
Revenue	1,247.8	1,169.3
Cost of sales	(447.5)	(405.8)
Gross profit	**800.3**	**763.5**
Selling, marketing and general expenses	(86.3)	(69.1)
Research and development expenses	(149.8)	(133.6)
Administration expenses	(200.2)	(156.6)
Other income	39.0	118.8
Other expenses	(117.9)	(86.4)
Share of losses on equity accounted investments	(0.2)	–
Results from operating activities	**284.9**	**436.6**
Finance income – interest	20.3	3.1
Finance expense – interest	(9.8)	(7.0)
Net finance expense	**10.5**	**(3.9)**
Profit before income tax	**295.4**	**432.7**
Income tax expense	(64.4)	(91.0)
Net profit	**231.0**	**341.7**

Statement of comprehensive income

	2023 $m	2022 $m
Net profit	**231.0**	**341.7**
Financial investments measured at fair value through other comprehensive income, net of tax	(19.1)	(83.8)
Foreign currency translation differences	(0.1)	(0.1)
Effective portion of changes in fair value of cash flow hedges, net of tax	(16.3)	(16.9)
Net change in fair value of cash flow hedges transferred to the Income statement, net of tax	13.7	(5.0)
Total comprehensive income	**209.2**	**235.9**
Retained earnings at beginning of year	263.9	116.2
Net profit	231.0	341.7
Dividends recognised	(197.4)	(194.0)
Defined benefit plan actuarial loss	(0.3)	–
Retained earnings at end of year	**297.2**	**263.9**

Balance Sheet

	2023 $m	2022 $m
Assets		
Cash and cash equivalents	455.9	542.7
Trade and other receivables	595.8	614.5
Forward exchange contracts	3.6	8.0
Inventories	191.2	150.3
Current tax assets	9.5	34.0
Prepayments	23.3	18.4
Total current assets	**1,279.3**	**1,367.9**
Forward exchange contracts	1.6	2.4
Property, plant and equipment	129.9	118.8
Intangible assets	153.6	102.6
Investments	93.6	119.0
Other financial assets	90.8	68.8
Equity-accounted investments	3.5	–
Loans and borrowings – internal	83.6	122.3
Investments in subsidiaries	502.6	436.0
Deferred tax assets	49.0	44.8
Right of use assets	94.9	104.9
Total non-current assets	**1,203.1**	**1,119.6**
Total assets	**2,482.4**	**2,487.5**

	2023 $m	2022 $m
Liabilities		
Trade and other payables	209.0	177.8
Forward exchange contracts	20.6	22.3
Loans and borrowings – external	–	42.6
Loans and borrowings – internal	190.5	150.1
Current tax liabilities	1.5	4.3
Employee benefit liabilities	73.7	54.6
Provisions	18.3	19.1
Deferred revenue	21.5	24.9
Lease liabilities	15.2	15.5
Total current liabilities	**550.3**	**511.2**
Forward exchange contracts	6.4	6.5
Loans and borrowings – internal	243.4	264.6
Employee benefit liabilities	3.7	3.8
Provisions	12.6	20.7
Deferred tax liabilities	17.1	21.5
Lease liabilities	99.5	109.8
Total non-current liabilities	**382.7**	**426.9**
Total liabilities	**933.0**	**938.1**
Net assets	**1,549.4**	**1,549.4**
Equity		
Share capital	1,250.3	1,276.6
Reserves	1.9	8.9
Retained earnings	297.2	263.9
Total equity	**1,549.4**	**1,549.4**

7.6 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 2022 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.

7.7 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 2023, 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 2023 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 2023.
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 15th day of August 2023.

Director

Director

KPMG

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 of 30 June 2023 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 of 30 June 2023
- 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
- 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 these requirements.

Key Audit Matters

The Key Audit Matters we identified are:

- Recoverability of trade receivables
- 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 $388.4 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, major hospital chains and distributors;
• 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;
	Our procedures included:
	• 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 system configuration for enforcing credit limits;
	  ◦ management's review of trade receivables ageing and trade receivables past due for identification of receivables with greater credit risk to be included in the expected credit loss model;
	• 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 and for certain customers by selecting a sample of significant overdue customer balances with indicators of credit deterioration. We:

KPMG

- The inherent subjectivity involved in the Consolidated Entity making forward-looking judgements in relation to the recovery of credit risk exposures; and
- The use of an expected credit loss model required by *AASB 9 Financial Instruments*.

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.

- compared management's assumptions to 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;
- evaluated other evidence including customer correspondence; and
- questioned the Consolidated Entity's knowledge of future conditions which may impact expected customer receipts and checked consistency of the results to the procedures performed above.
- Challenging the Consolidated Entity's expected credit loss modelling for customers without a specific risk by comparing assumptions to historical patterns of credit losses and evaluating those assumptions against changes in general economic conditions in significant locations.
- 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 $40.7 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 high 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 • 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. Given the dependence on manually developed calculations, we involved our data analytics specialists to supplement our senior team members in addressing this key audit matter.	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; • Assessing the integrity of the model for the warranty provision. This included checking the accuracy of the formulas within the model using data analytic techniques; • Comparing the forecast claim rates of a sample of products to actual warranty claims for that product or actual warranty claims of previous generations of similar products; • Comparing the forecast proportion of claims that can be repaired and associated repair costs to historical repair performance; • Comparing the forecast replacement cost to actual manufacturing costs and challenging forward-looking assumptions used in the model; • Enquiring of management responsible for product design and quality attributes and the product repair function regarding product reliability and repairability, especially in relation to recently launched products, to challenge the forward-looking assumptions used in the model; • 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.

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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 control 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 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: https://www.auasb.gov.au/admin/file/content102/c3/ar1_2020.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 2023, 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

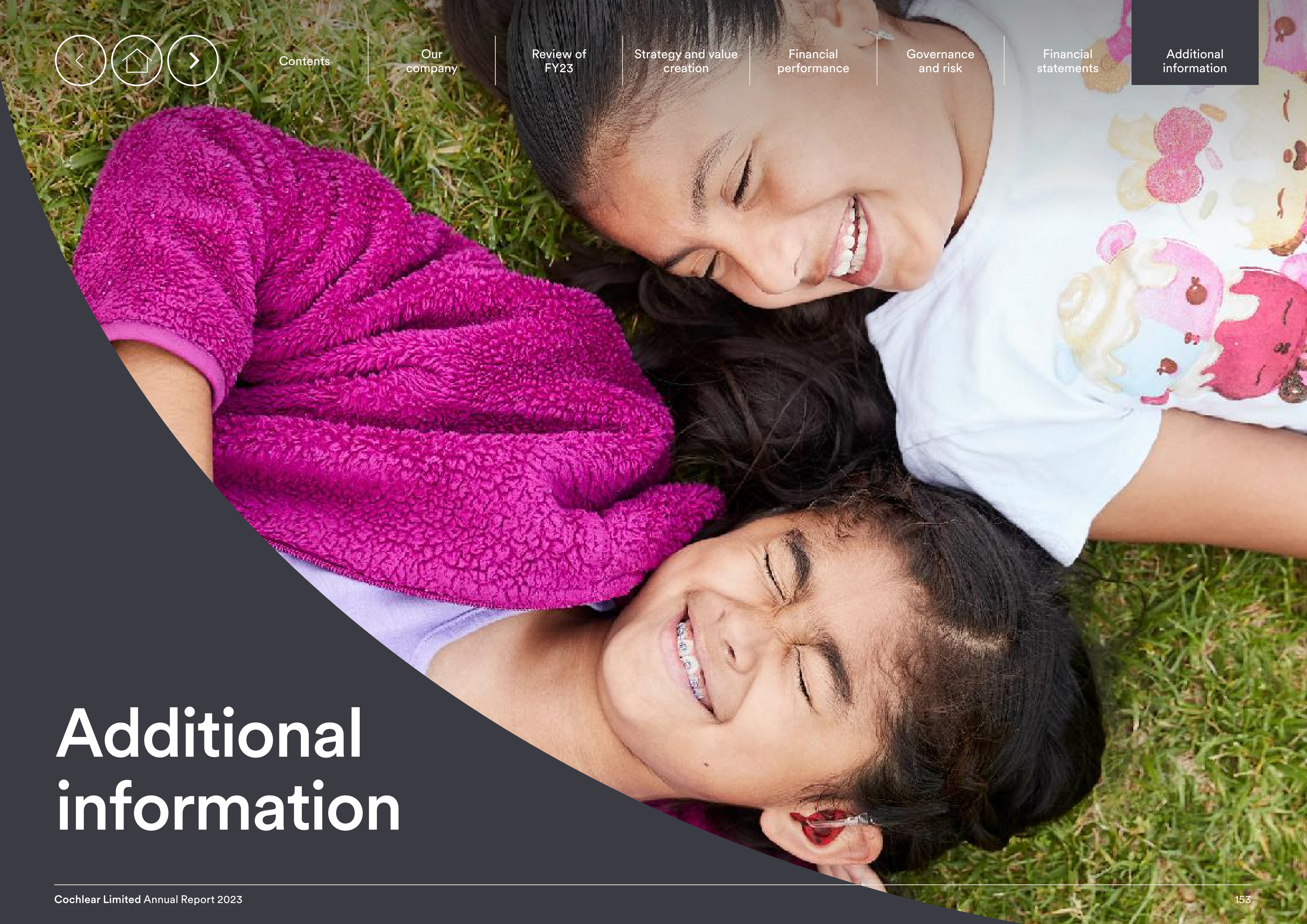
We have audited the Remuneration Report included in pages 86 to 107 of the Directors' report for the year ended 30 June 2023.

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, 15 August 2023



Additional information

Sustainability data

Sustainability approach

Sustainability is embedded in our business strategy, recognising the importance of social, environmental and governance outcomes for our long-term success.

Our approach

Our sustainability approach is integrated with business strategy. It reinforces our focus on creating positive social impact at individual and societal levels, while minimising our environmental impact. It helps guide our strategic priorities, manage risk and improve performance.

Our approach is informed by our materiality assessment and business priorities as well as the Global Reporting Initiative (GRI) framework, the United Nations Sustainable Development Goals (SDGs) and the United Nations Global Compact (UNGC) Principles.

We have been signatory of the UNGC since 2022 and support the Ten Principles in the areas of human rights, labour, environment and anti-corruption.

UN GLOBAL COMPACT

Sustainability governance

The Board is responsible for overseeing the approval and integration of sustainability initiatives into business strategy and operations and approving sustainability policies and goals.

The Audit and Risk Committee assists the Board to discharge its responsibilities in monitoring sustainability performance and overseeing the implementation of sustainability initiatives and commitments and reviewing the assessment, management and response to these risks and opportunities.

The Executive team has responsibility for the implementation of sustainability strategy, integrating sustainability into business strategy and operations and reporting progress to the Audit and Risk Committee.

The global sustainability team reports to the Chief Financial Officer and is responsible for defining our sustainability framework, supporting all parts of the business to deliver on the framework, leading or coordinating key sustainability-related activities and developing external reporting.

Group risk and assurance is responsible for maintaining the enterprise risk framework which includes sustainability and climate-related risks. All employees and contractors are responsible for compliance with policy and procedure controls to manage risk.

Sustainability governance framework

Board

Oversight of sustainability and initiatives

Audit and Risk Committee

Monitor and review sustainability performance and initiatives

Executive team

Implementation of sustainability strategy

Global sustainability team

Driving sustainability activities across the business

Sustainability approach

Materiality

Our material topics focus on the positive social impact our solutions deliver to society and reflect our business strategic priorities.

We regularly assess the most significant sustainability topics for our business and our stakeholders, and our materiality process is aligned to the GRI Standards.

Our materiality assessment, conducted in 2022, was informed by a market scan of key sustainability trends, benchmarking against industry peers and stakeholder engagement. This year we focused on better understanding the perspective of implant recipients by undertaking surveys in several key markets.

Our contribution to the United Nations Sustainable Development Goals

The United Nations Sustainable Development Goals (SDGs) are a set of 17 universal goals adopted by all United Nations Member States in 2015. The goals are a global call to action on sustainable development that aim to end poverty, protect the planet and ensure all people enjoy healthy lives, peace and prosperity by 2030. They are applicable to all countries at all stages of development and are predicated on all sectors of society being involved in their achievement.

The World Health Organization's first World Report on Hearing highlights the relevance of action on hearing care to achieving SDGs. We support the objectives of the SDGs and recognise their relevance to our business.

We believe that our greatest contributions relate to SDGs 3: good health and wellbeing, 4: quality education, 5: gender equality, 8: decent work and economic growth, 9: industry, innovation, infrastructure, 10: reduced inequalities and 13: climate action. This year we continued to address our priority SDGs which are also reflected in our material topics.

Material topics	Information about how we are addressing the topic	SDGs
Product quality, safety and reliability	A lifetime of hearing solutions	3, 9
Access and affordability	A healthier and more productive society	3, 4, 8, 10
Health outcomes and socioeconomic enablement	A healthier and more productive society	3, 4, 8, 10
Data privacy and cyber security	Sustained value	8, 9
Awareness and education	A healthier and more productive society A lifetime of hearing solutions	3, 9
Customer-centric approach	A lifetime of hearing solutions	3, 9
Research and innovation	A lifetime of hearing solutions	3, 9, 13
Energy, emissions and climate resilience	Environmental responsibility	13
Employee value proposition	Thriving people	4, 5, 9
Ethical and sustainable supply chain	Sustained value	8, 9, 10
Diversity, equity and inclusion	Thriving people	5, 8

Progress against our targets

The following table outlines our progress towards the targets defined in our 2022 Sustainability Report, reinforcing our strong positive social impact and the commitment to minimising our environmental footprint. During FY23 we have achieved several targets and reviewed remaining targets to ensure they remain relevant and appropriate. While several targets will remain unchanged, others have been revised to reflect the further integration of sustainability into the business strategy.

Targets	FY23 progress	Status
A healthier and more productive society		
Help over 40,000 people hear with one of our cochlear or acoustic implants.	Helped over 44,000 people hear. We are investing in initiatives to develop a standard clinical pathway for adults.	Ongoing
A lifetime of hearing solutions		
Target an annual R&D investment of approximately 12% of sales revenue.	Invested over $240m in R&D, 13% of sales revenue.	On going
Thriving people		
Maintain or exceed employee engagement score of 80%.	Employee engagement scored maintained at 80%, with survey inputs incorporated in our culture work.	Achieved
Achieve 40% of female representation in senior management role (2 levels below the CEO & President) by FY24.	Women in senior management roles increased to 43%, up 2 points from last year.	Achieved
Maintain fair remuneration for equivalent work including annual review to ensure gender pay equity.	We continuously monitor remuneration and reward practices to ensure fairness and equity in our talent management activities and identify opportunities for further improvement.	Ongoing
Environmental responsibility		
25% reduction in our absolute Scope 1 and Scope 2 emissions by 2025.	Reduced Scope 1 and 2 emissions by 68% in relation to the FY19 baseline.	Achieved
50% reduction in business flight emissions by 2025.	Reduced business flight emissions by 91% in relation to the FY19 baseline.	Achieved
Net-zero emissions in our operations (Scope 1 and 2) by 2030.	Transitioned 5 of our 6 manufacturing sites to renewable energy and identifying opportunities to move to 100% renewable energy at the remaining site. Expanded renewable energy use at our non-manufacturing locations.	On track
Sustained value		
Review the Global Code of Conduct and deliver training to all employees in FY23.	Published the reviewed Global Code of Conduct and delivered training to all employees in FY23.	Achieved
Review Supplier Code of Conduct in FY23	Published the reviewed Supplier Code of Conduct.	Achieved
Implement Reflect Reconciliation Action Plan (RAP) and begin developing next RAP in FY23.	Implemented the Reflect RAP and initiated the development of the Innovate RAP.	Achieved

Climate-related metrics

Scope 1

- Gasoline and natural gas for our fleet and operations.

Scope 2

- Purchased electricity for our manufacturing and other facilities.

Scope 3

- We are reporting on business flights only.
- We are currently undertaking a complete Scope 3 inventory and will report on the relevant emission categories during FY24.

GHG emissions[1]	Unit	% Change from FY19 (Baseline)	FY23	FY22	FY21	FY20	FY19
Total Scope 1[2]	tCO2e	124%	916	251	474	559	409
Total Scope 2[3]	tCO2e	-76%	2,401	8,693	11,793	9,115	9,825
Total Scope 1 & 2	**tCO2e**	**-68%**	**3,316**	**8,945**	**12,267**	**9,674**	**10,234**
Emission intensity per unit	KgCO2e/unit	-79%	14	41	68	66	66
Emission intensity per mAUD	KgCO2e/ revenue	-78%	2	5	8	8	8
Total Scope 3 (business flights)[4]	tCO2e	-91%	1,641	1,046	186	4,774	18,630
Total Scope 1 to 3	tCO2e	-83%	4,957	9,991	12,454	14,448	28,864

Energy	Unit	% Change from FY19 (Baseline)	FY23	FY22	FY21	FY20	FY19
Direct purchased electricity	MWh	29%	23,158	22,943	22,857	15,638	17,806
Direct purchased natural gas + petrol	MWh	-62%	5,433	2,066	1,904	1,201	5,371
Total direct purchased energy	**MWh**	**8%**	**28,591**	**25,009**	**24,761**	**16,839**	**23,177**
Energy intensity per unit	MWh/unit	-7%	0.12	0.11	0.13	0.11	0.11
Energy intensity per mAUD	MWh/revenue	6%	15	14	15	13	13

1. GHG emissions measured using the Greenhouse Gas (GHG) Protocol as a guiding framework.

2. Scope 1 emissions calculated based on the volume of fuel consumed and emission factors considered most relevant to each region where consumption occurred.

3. Scope 2 emissions calculated based on the electricity consumption and emission factors considered most relevant to each region where consumption occurred. Estimates have been made for certain facilities where actual data was not available, representing less than 1% of the total Scope 2 emissions.

4. Scope 3 emissions related to business flights only. Travel data obtained from travel management companies. Emissions provided by travel management companies or calculated based on the relevant emission factors applied to the distance travelled. Total includes 1,641 tCO2e carbon offsets.

Our people

Our workforce

Employees by category	FY23				FY22			
	Female		Male		Female		Male	
	%	Number	%	Number	%	Number	%	Number
Senior manager	43%	168	57%	227	41%	157	59%	225
Management	49%	457	51%	475	48%	406	52%	444
Operational	55%	1,882	45%	1,564	55%	1,763	45%	1,451
Total	**53%**	**2,507**	**47%**	**2,266**	**52%**	**2,326**	**48%**	**2,120**

Employees by type and gender	FY23				FY22			
	Female		Male		Female		Male	
	%	Number	%	Number	%	Number	%	Number
Permanent	53%	2,508	47%	2,267	52%	2,327	48%	2,120
Temporary	57%	83	43%	63	63%	94	37%	56
Full-time	51%	2,392	49%	2,275	51%	2,229	49%	2,137
Part-time	78%	199	22%	55	83%	192	17%	39
Total	**53%**	**2,591**	**47%**	**2,330**	**53%**	**2,421**	**47%**	**2,176**

Gender diversity in leadership	FY23	FY22
Women on the Board	40%	33%
Women in senior management	43%	41%

Engagement

Engagement	FY23	FY22
Employee turnover	8.2%	11.1%
Engagement score	80%	80%
Total hours of employee formal training	28.5	24.3

Safety and wellbeing

	FY23	FY22	FY21	FY20	FY19
Severity rate	263	281	295	192	156
Injury Frequency					
TRIFR[1]	3.3	2.5	2.7	3.2	1.9
LTIFR[2]	2.3	1.6	1.5	1.7	1

1 Total Recordable Injury Frequency Rate (TRIFR) measures how frequently recordable injuries are occurring.

2 Total Lost Time Injury Frequency Rate (LTIFR) refers to the number of lost time injuries occurring in a workplace per 1 million hours worked.

GRI Content Index

Cochlear Limited has reported the information cited in this GRI content index for the period from 01 July 2022 to 30 June 2023 with reference to the GRI Standards.

GRI used: GRI 1: Foundation 2021. No sector guidelines apply.

GRI Disclosures	Location	SDGs	UNGC
GRI 2: General Disclosures 2021			
2-1 Organizational details	About Cochlear - page 3		
2-2 Entities included in the organization's sustainability reporting	About this report - page 1		
2-3 Reporting period, frequency and contact point	About this report - page 1	16	
2-4 Restatements of information	Climate-related metrics – page 158 - Total Scope 1 to 3 emissions in FY21 presented in the 2022 Sustainability Report was adjusted to reflect the correct amount. Safety and wellbeing - page 159 - Severity rate, TRIFR and LTIFR in FY22 presented in the 2022 Sustainability Report was adjusted to reflect the correct rates.	16	
2-5 External assurance	Report on the audit of Financial Report - page 150 The sustainability data was internally reviewed and not submitted to external assurance. The content of this report is approved by the executive team.		
2-6 Activities, value chain and other business relationships	Responsible supply chain - page 59	16	
2-7 Employees	Our workforce - page 159	16	
2-8 Workers who are not employees	Our workforce - page 159	16	
2-9 Governance structure and composition	Governance - pages 69 - 72	16	
2-10 Nomination and selection of the highest governance body	2023 Corporate Governance Statement	16	
2-11 Chair of the highest governance body	Board of directors - pages 77 - 80	16	
2-12 Role of the highest governance body in overseeing the management of impacts	Sustainability governance - page 155	16	1, 7
2-13 Delegation of responsibility for managing impacts	Sustainability governance - page 155 Board skills matrix - page 72	16	1, 7, 10
2-14 Role of the highest governance body in sustainability reporting	Sustainability governance - page 155	16	1, 7
2-15 Conflicts of interest	Cochlear Global Code of Conduct	16	10
2-16 Communication of critical concerns	Cochlear Global Code of Conduct	16	10
2-17 Collective knowledge of the highest governance body	2023 Corporate Governance Statement	16	
2-18 Evaluation of the performance of the highest governance body	2023 Corporate Governance Statement	16	
2-19 Remuneration policies	Remuneration report - page 86	8	1, 7, 10

GRI Disclosures	Location	SDGs	UNGC
GRI 2: General Disclosures 2021			
2-20 Process to determine remuneration	Remuneration report - page 86	8	
2-21 Annual total compensation ratio	Information currently not disclosed.	16	
2-22 Statement on sustainable development strategy	Year in review – pages 9 – 16	16	1, 7
2-23 Policy commitments	Our pathway to net-zero emissions - page 52 Cochlear Global Code of Conduct 2022 Cochlear Modern Slavery Statement	16	1, 7, 8, 10
2-24 Embedding policy commitments	Cochlear Global Code of Conduct	16	
2-25 Processes to remediate negative impacts	Managing our climate-related sustainability risks - page 53 Environmental management - page 54 Sustainability approach - page 155 Cochlear Global Code of Conduct	16	7, 8, 9
2-26 Mechanisms for seeking advice and raising concerns	Cochlear Global Code of Conduct	16	10
2-27 Compliance with laws and regulations	Creating value responsibly - pages 59 - 61	16	1, 2, 8
2-28 Membership associations	Sustainability approach - page 155	All SDGs	
2-29 Approach to stakeholder engagement	Materiality - page 156	16	
2-30 Collective bargaining agreements	Cochlear Global Code of Conduct	8	3
GRI 3: Material Topics 2021			
3-1 Process to determine material topics	Materiality - page 156	17	
3-2 List of material topics	Materiality - page 156	17	1, 2, 7, 8
3-3 Management of material topics	Sustainability approach - page 155 Materiality - page 156	1, 2, 7, 8, 10	
GRI 201: Economic Performance 2016			
201-1 Direct economic value generated and distributed	Cochlear at a glance - page 4 Financial statements - pages 108 - 152	3, 8, 10	
201-2 Financial implications and other risks and opportunities due to climate change	Cochlear at a glance - page 4 Financial statements - pages 108 – 152	13	7, 8, 9
201-3 Defined benefit plan obligations and other retirement plans	Defined benefit plans - page 127	16	
201-4 Financial assistance received from government	Other income - page 121	16	

GRI Disclosures	Location	SDGs	UNGC
GRI 205: Anti-corruption 2016			
205-2 Communication and training about anti-corruption policies and procedures	Creating value sustainably - page 59	3, 16	10
GRI 207: Tax 2019			
207-1 Approach to tax	Tax transparency - page 60	1, 10, 17	
GRI 302: Energy 2016			
302-1 Energy consumption within the organization	Climate-related metrics - page 158	13	7, 8, 9
302-2 Energy consumption outside of the organization	Climate-related metrics - page 158	13	8, 9
302-3 Energy intensity	Climate-related metrics - page 158	13	7, 8, 9
302-4 Reduction of energy consumption	Climate-related metrics - page 158	13	8, 9
303-5 Water consumption	Resource efficiency - page 54	12	8, 9
GRI 305: Emissions 2016			
305-1 Direct (Scope 1) GHG emissions	Climate-related metrics - page 158	13	8, 9
305-2 Energy indirect (Scope 2) GHG emissions	Climate-related metrics - page 158	13	8, 9
305-3 Other indirect (Scope 3) GHG emissions	Climate-related metrics - page 158	13	8, 9
305-4 GHG emissions intensity	Climate-related metrics - page 158	13	8, 9
305-5 Reduction of GHG emissions	Climate-related metrics - page 158	13	8, 9
GRI 306: Waste 2020			
306-2 Management of significant waste-related impacts	Resource efficiency - page 54	12	8, 9
GRI 308: Supplier Environmental Assessment 2016			
308-1 New suppliers that were screened using environmental criteria	Responsible supply chain - page 59	8, 9, 10, 13	8
308-2 Negative environmental impacts in the supply chain and actions taken	Responsible supply chain - page 59	8, 9, 10, 13	8
GRI 401: Employment 2016			
401-1 New employee hires and employee turnover	Engagement - page 159	3, 8	
GRI 403: Occupational Health and Safety 2018			
403-1 Occupational health and safety management system	Supporting the wellness and safety of our teams - page 49	3, 8	
403-3 Occupational health services	Supporting the wellness and safety of our teams - page 49	3, 8	
403-4 Worker participation, consultation, and communication on occupational health and safety	Supporting the wellness and safety of our teams - page 49	3, 8	
403-5 Worker training on occupational health and safety	Supporting the wellness and safety of our teams - page 49	3, 8	

GRI Disclosures	Location	SDGs	UNGC
GRI 403: Occupational Health and Safety 2018			
403-6 Promotion of worker health	Supporting the wellness and safety of our teams - page 49	3, 8	
403-7 Prevention and mitigation of occupational health and safety impacts directly linked by business relationships	Supporting the wellness and safety of our teams - page 49	3, 8	
403-8 Workers covered by an occupational health and safety management system	Supporting the wellness and safety of our teams - page 49	3, 8	
403-9 Work-related injuries	Safety and wellbeing - page 159	3, 8	
403-10 Work-related ill health	Safety and wellbeing - page 159	3, 8	
GRI 404: Training and Education 2016			
404-1 Average hours of training per year per employee	Engagement - page 159	8	
404-2 Programs for upgrading employee skills and transition assistance programs	Attracting, developing and retaining talent - page 48	8	
GRI 405: Diversity and Equal Opportunity 2016			
405-1 Diversity of governance bodies and employees	Championing a culture of diversity and inclusion - page 46	5	6
GRI 408: Child Labor 2016			
408-1 Operations and suppliers at significant risk for incidents of child labor	Responsible Supply Chain - 59 Cochlear Global Code of Conduct	8	5
GRI 409: Forced or Compulsory Labor 2016			
409-1 Operations and suppliers at significant risk for incidents of forced or compulsory labor	Responsible Supply Chain - 59 Cochlear Global Code of Conduct	8	4
GRI 411: Rights of Indigenous Peoples 2016			
411-1 Incidents of violations involving rights of indigenous peoples	Reconciliation Action Plan	1, 8, 10	1
GRI 413: Local Communities 2016			
413-1 Operations with local community engagement, impact assessments, and development programs	Cochlear Foundation	3, 4, 8, 10	
GRI 414: Supplier Social Assessment 2016			
414-1 New suppliers that were screened using social criteria	Responsible Supply Chain - 59	8, 9, 10, 13	1, 3, 4, 5
414-2 Negative social impacts in the supply chain and actions taken	Responsible Supply Chain - 59	8, 9, 10, 13	1, 3, 4, 5

GRI Disclosures	Location	SDGs	UNGC
GRI 415: Public Policy 2016			
415-1 Political contributions	Public policy engagement - page 61	3, 16	10
GRI 416: Customer Health and Safety 2016			
416-1 Assessment of the health and safety impacts of product and service categories	Leading on product quality and reliability - page 40	3, 9, 12	
GRI 417: Marketing and Labeling 2016			
417-1 Requirements for product and service information and labeling	Leading on product quality and reliability - page 40 In addition, our Quality Management System is intended to be compliant with the following quality management standards, regulations and directives: • EN ISO 13485:2016 • ISO 13485:2016 • CFR Title 21 Part 820 (US) • Medical Device Regulation (EU) 2017/745 : 2017 • Active Implantable Medical Device Directive 90/385/EEC • Therapeutic Good Act 1989 • Therapeutic Goods (Medical Device) Regulations 2002 (Australia) • Canadian Medical Device Regulation (SOR/98-282) • MHLW Ministerial Ordinance no. 169 (Japan) • Medical Device Act (South Korea) • Good Manufacturing Practices RDC National Health Surveillance Agency (ANVISA) • 665/2022 (Brazil) • NMPA (2014) China No. 64 Order of Good Manufacturing Practice for Medical Devices.	3, 9, 12	
GRI 418: Customer Privacy 2016			
418-1 Substantiated complaints concerning breaches of customer privacy and losses of customer data	Cyber security - page 59 Data privacy - page 60	16	

References

FY23 highlights – page 8

1. Cochlear estimates based on the published economic model findings of Neve et al 2021. Dollar amount relates to all recipients implanted with a cochlear implant in FY23 across the developed markets.

Year in review – pages 9-16

1. Cochlear estimates based on the published economic model findings of Neve et al 2021. Dollar amount relates to all recipients implanted with a cochlear implant in FY23 across the developed markets.
2. Lin FR et al. Hearing intervention versus health education control to reduce cognitive decline in older adults with hearing loss in the USA (ACHIEVE): a multicentre, randomised controlled trial. The Lancet. [ePub ahead of print] DOI: https://doi.org/10.1016/S0140-6736(23)01406-X. Available at https://www.thelancet.com/journals/lancet/article/PIIS0140-6736(23)01406-X/fulltext
3. https://www.cms.gov/medicare-coverage-database/view/ncacal-decision-memo.aspx?proposed=N&ncaid=306
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6. a. Cochlear Limited. D1864200 SCAN 2 Design Description. 2022, Apr. b. Mauger SJ, Warren C, Knight M, Goorevich M, Nel E. Clinical evaluation of the Nucleus 6 cochlear implant system: performance improvements with SmartSound iQ. International Journal Of Audiology. 2014, Aug; 53(8): 564-576. [Sponsored by Cochlear] c. Mauger S, Jones M, Nel E, Del Dot J. Clinical outcomes with the Kanso™ off-the-ear cochlear implant sound processor. International Journal Of Audiology. 2017, Jan 9; 1-10. [Sponsored by Cochlear] d. Wolfe J, Neumann S, Marsh M, Schafer E, Lianos L, Gilden J, O'Neill L, Arkis P, Menapace C, Nel E, Jones M. Benefits of Adaptive Signal Processing in a Commercially Available Cochlear Implant Sound Processor. Otol Neurotol. 2015 Aug;36(7):1181-90. [Sponsored by Cochlear] e. Cochlear Limited. D1631375 Nucleus 8 Sound Processor Product Definition. F. Wolfe J, et al. Evaluation of a wireless audio streaming accessory to improve mobile telephone performance of cochlear implant users. International Journal of Audiology. 2016;55(2):75-82. G. Wolfe J, et al. Improving hearing performance for cochlear implant recipients with use of a digital, wireless, remote-microphone, audio-streaming accessory. J Am Acad Audiol. 2015 Jun;26(6):532-9. H. Warren C, Nel E, and Boyd P. Controlled comparative clinical trial of hearing benefit outcomes for users of the Cochlear™ Nucleus® Sound Processor with mobile connectivity. Cochlear Implants International (2019 Feb); 20(3)19. i. Cochlear Limited. D1964109 Clinical Investigation Report CLTD5804 – Feb 2022. ¥ When the technology becomes available for the Cochlear Nucleus 8 Sound Processor, a firmware update to your sound processor will allow you to connect to Bluetooth LE Audio compatible devices. † ForwardFocus is a clinician-enabled feature that can be user-controlled or automated.
7. https://www.red-dot.org/project/cochlear-nucleus-8-sound-processor-63928

Growth opportunity – pages 20-21

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2. Market penetration estimate based on Cochlear sourced data.
3. a. Mohr et al., 2000.
   b. CPI Inflation Calculator (http://www.in2013dollars.com).
   c. Estimated from Mohr et al., 2000.
4. The Ear Foundation (2018). Spend2Save Report (2nd Edition).
5. WHO 2021 World Report on Hearing (https://www.who.int/activities/highlighting-priorities-for-ear-and-hearing-care).
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Key market segments – pages 22-23

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Sustained value – pages 55-61

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Notes

Shareholder information

The shareholder information presented is applicable as at 28 July 2023.

Substantial shareholders

Investor	Number of ordinary shares	%
BlackRock Inc	4,477,869	6.82
State Street Corporation	3,863,824	5.88
ABP (Algemen Burgerlijk PSF)	3,541,229	5.39
Pinnacle Investment Management Group Limited	3,299,003	5.02
Total	**15,181,925**	**23.12**

Distribution of shareholders

Number of shares held	Number of ordinary shareholders	% shares
1 - 1,000	40,227	10.06
1,001 - 5,000	2,472	7.22
5,001 - 10,000	102	1.06
10,001 - 100,000	64	2.12
100,001 and over	19	79.54
Total	**42,884**	**100.00**

All shares above are fully paid ordinary shares, each carrying one voting right.

Non-marketable parcels: 245 shareholders held less than a marketable parcel of ordinary shares, based on the closing market price on 28 July 2023 of $239.07.

Unquoted equity securities

As at 28 July 2023, there were 243,155 options and 152,650 rights over unissued ordinary shares.

On market buy-back

On 15 February 2023, Cochlear announced its intention to buy-back up to $75 million of its fully paid ordinary shares. A total of $29.6 million was spent up to 30 June 2023.

Securities purchased on-market

44,658 ordinary shares were purchased on-market under or for the purposes of an employee incentive scheme, with the average price paid per security being $239.81.

Twenty largest shareholders

	Shareholder	Number of ordinary shares	% of issued capital
1	HSBC Custody Nominees (Australia) Limited	29,384,578	44.75
2	J P Morgan Nominees Australia Pty Limited	9,404,348	14.32
3	Citicorp Nominees Pty Limited	6,098,155	9.29
4	National Nominees Limited	2,009,236	3.06
5	BNP Paribas Noms Pty Ltd <DRP>	1,644,075	2.50
6	BNP Paribas Nominees Pty Ltd <Agency Lending DRP A/C>	792,246	1.21
7	HSBC Custody Nominees (Australia) Limited <NT-Comnwlth Super CORP A/C>	451,702	0.69
8	HSBC Custody Nominees (Australia) Limited-GSCO ECA	396,188	0.60
9	Australian Foundation Investment Company Limited	324,174	0.49
10	Netwealth Investments Limited <Wrap Services A/C>	305,565	0.47
11	BNP Paribas Nominees Pty Ltd Hub24 Custodial Serv Ltd <DRP A/C>	256,551	0.39
12	Citicorp Nominees Pty Limited <Colonial First State INV A/C>	253,816	0.39
13	HSBC Custody Nominees (Australia) Limited <Euroclear Bank SA NV A/C>	176,502	0.27
14	Mr Christopher Graham Roberts	172,387	0.26
15	Custodial Services Limited <Beneficiaries Holding A/C>	152,756	0.23
16	HSBC Custody Nominees (Australia) Limited - A/C 2	133,789	0.20
17	BNP Paribas Nominees Pty Ltd ACF Clearstream	115,215	0.18
18	HSBC Custody Nominees (Australia) Limited	109,229	0.17
19	Cochlear Incentive Plan Pty Ltd <Cochlear Employee Share A/C>	101,003	0.15
20	BNP Paribas Nominees Pty Ltd <IB AU Noms Retailclient DRP>	61,520	0.09
Total		**52,343,035**	**79.71**

The 20 largest shareholders held 79.71% of the ordinary shares of the Company.

Directory

Cochlear headquarters

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Website: www.cochlear.com

Shareholder enquiries

Access to shareholding information is available to investors through Cochlear's share registry 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

Auditor

KPMG
Level 38, Tower Three, International Towers Sydney
300 Barangaroo Avenue
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Telephone: +612 9335 7000
Website: www.kpmg.com.au

Calendar of events*

19 September 2023	Record date for final dividend
11 October 2023	Payment date for final dividend
17 October 2023	Annual general meeting
16 February 2024	HY24 results announced
22 March 2024	Record date for interim dividend
15 April 2024	Payment date for interim dividend
15 August 2024	FY24 results announced

* Indicative dates only and subject to change.

Company secretary

Ray Jarman

Annual general meeting

The annual general meeting of Cochlear Limited will be held on 17 October 2023 at 10.00am. Further details will be provided in the Notice of Meeting, which will be provided to shareholders in mid-September 2023. The Notice of Meeting will also be available on the ASX Company Announcements Platform and the website, www.cochlear.com.

Hear now. And always

Cochlear is dedicated to helping people with moderate to profound hearing loss experience a world full of hearing. As the global leader in implantable hearing solutions, we have provided more than 700,000 devices and helped people of all ages to hear and connect with life's opportunities.

We aim to give people the best lifelong hearing experience and access to next generation technologies. We collaborate with leading clinical, research and support networks to advance hearing science and improve care.

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

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www.cochlear.com

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