



**Cochlear**<sup>®</sup>

Hear now. And always



Cochlear Limited  
**Tax Contribution  
Report 2022**



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David, Cochlear<sup>®</sup> Nucleus<sup>®</sup> System recipient

# Letter from the CFO

I am pleased to present this Tax Contribution Report for 2022 for Cochlear Limited detailing Cochlear's taxes paid in Australia and globally and Cochlear's global tax strategy.

Cochlear has a strong commitment to transparency and compliance from a regulatory and financial perspective and values the principles of being transparent with respect to its tax strategy and compliance here in Australia and globally.

A key driver of our global tax strategy is our longstanding commitment to Australian based research and development (R&D) and manufacturing as well as growing the business with broad economic benefits for Australia. Our tax strategy reflects that most of Cochlear's intellectual property is generated in Australia and the assets, risks and functions of implementing that strategy meant that the majority of Cochlear's corporate income tax was paid in Australia in 2022.

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

We innovate to build a market-leading portfolio of products and services that supports a lifetime of hearing outcomes for recipients. We have achieved this through a multi-decade philosophy of investing to grow and an unwavering commitment to innovation. In FY22 we invested over \$200 million in R&D, representing 13% of sales revenue, with many new products and services achieving regulatory approval over the past few years across all parts of the portfolio.



The Cochlear™ Nucleus® 8 Sound Processor achieved CE Mark approval in July 2022; the Cochlear™ Baha® 6 Max Sound Processor was launched in the second half of FY21 with strong demand experienced for the new sound processor and Cochlear™ Remote Assist achieved FDA approval in October, enabling live video appointments for both cochlear implant and Baha® Implant recipients.

We will continue to advocate for Government incentives and initiatives that support Australian-based manufacturing of medical products resulting in highly skilled, well-paid jobs and more investment in the commercialisation of Australia's world-leading medical research.

A handwritten signature in black ink, appearing to read 'Stu Sayers'. The signature is fluid and stylized, with a long horizontal stroke at the end.

**Stu Sayers**

Chief Financial Officer



# About Cochlear

For over 40 years, Cochlear has been the global leader in implantable hearing solutions. Cochlear commenced operations in 1981 as part of the Nucleus group and in 1995, listed on the Australian Securities Exchange. Today, Cochlear is a Top 50 listed Australian company with a market capitalisation of over A\$13 billion.

We aim to improve awareness of and access to implantable hearing solutions for people indicated for our products.

We have provided more than 700,000 implant devices to people who benefit from one – or two – of our implantable solutions. Whether these hearing solutions were implanted today or many years ago, we continue to bring innovative new products to market as well as sound processor upgrades for prior generations of recipients.

In FY22, we invested over \$200 million in R&D, representing 13% of sales revenue. Since listing, we have invested over \$2 billion in R&D and we participate in over 100 collaborative research programs worldwide. Our global headquarters are on the campus of Macquarie University in Sydney, with regional offices in Asia Pacific, Europe and the Americas. We have a deep geographical reach, selling in over 180 countries, with a direct presence in over 30 countries and a global workforce of over 4,500 employees.

For FY22, 57% of Cochlear's sales revenue was from cochlear implant (Nucleus) products and 12% from Acoustics products. Services revenue, which includes sound processor upgrade and accessories sales revenue, accounted for 31% of total sales revenue. On a regional basis, Cochlear sales revenue was split:

- Americas (US, Canada & Latin America) – 48% of sales revenue
- EMEA (Europe, Middle East and Africa) – 35% of sales revenue
- Asia Pacific (Australasia & Asia) – 17% of sales revenue

Cochlear's third party sales are primarily overseas with approximately 95% of revenue in FY22 generated from countries outside Australia.

By contrast, all cochlear implant manufacture is conducted in Australia with bone conduction implant manufacture occurring in Australia, Sweden and Malaysia. Cochlear implant and services revenue account for 88% of our revenue. There is considerable know how associated with this specialised manufacture and the technology that underpins our products has been developed in Australia and is protected by patents. Our tax strategy is aligned with this holding of intellectual property in Australia.

# Tax strategy and governance

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

## Approach to risk management and governance

Cochlear Limited operates in a highly regulated global industry in the area of implantable hearing solutions. Cochlear must ensure it enters into transactions in a way which does not inhibit its ability to design, develop, manufacture and distribute its products globally and which also maintains its reputation with Regulators and Governments in the countries in which it operates.

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

Cochlear's global tax and finance teams work together to identify, analyse and evaluate global tax risks. Key global tax risks are identified by the Tax Manager EMEA for UK and EMEA tax risks, the Tax Manager US for US tax risks, the Group Tax Manager for Australian tax risks and also by the regional heads of finance for global locations and escalated to the Vice President Global Tax and Treasury who is a direct report of, and identifies global tax risks to, the Chief Financial Officer.

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

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

## Attitude towards tax planning

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

Cochlear together with its Australian subsidiaries has formed a tax consolidated group for Australian tax purposes with Cochlear Limited as the head company of the Australian tax consolidated group.

## Accepted level of risk in relation to taxation

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

## Approach to engagement with global revenue authorities

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

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

In this respect, Cochlear has signed two Bilateral Advanced Pricing Agreements with the ATO; one with the National Tax Authority of Japan which has a term of 5 years and is currently being renewed, and one with the Internal Revenue Service of the United States which has a term of 7 years. Cochlear's dealings with its UK subsidiary based in London are concluded on similar principles but are not encapsulated in a formal Advanced Pricing Agreement.

## International related party dealings

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

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

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

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

- Cochlear manufactures the cochlear implant product at three sites in Australia - Macquarie University and Lane Cove in NSW, and Brisbane in QLD. The manufacture of bone conduction and acoustic implants is carried out in Australia and under contract manufacturing agreements in Sweden and Malaysia.
- All intellectual property is owned by Cochlear in Australia with the majority of R&D activities undertaken in Australia. There are R&D capabilities in Sweden, Belgium and the United States and Cochlear has contract R&D agreements with the subsidiaries in those regions.
- Cochlear has headquarter distributors located in the UK, US and Panama as well as other distributors located across Asia Pacific who purchase product directly from Cochlear for ultimate sale in their regions.
- Cochlear operates a repair centre in Malaysia. This entity provides testing, diagnostic and repair of sound processors, logistic activities including packing and shipping, scrapping of devices and related administrative tasks for Cochlear group entities globally.
- Cochlear operates Shared Service Centres in Malaysia and Panama. These centres provide support to Cochlear group entities such as customer order entry, service request entry, registration, invoicing, user acceptance testing, customer account set up and maintenance. The centre in Malaysia also provides IT support services to the Cochlear group.
- Cochlear has a captive insurance company in Singapore. It provides captive insurance services to subsidiaries in Americas, EMEA and Asia Pacific. The captive insurance company is managed by an independent third party insurance broker.

The following table provides a summary of the nature of activities undertaken by subsidiaries incorporated, and branches located, in jurisdictions outside of Australia:

<b>Country</b>	<b>International related party dealing</b>
<b>Singapore<sup>1</sup></b>	Captive insurance company
<b>Belgium</b>	Service provider (contract R&D)
<b>Sweden</b>	Service provider (contract manufacturing and R&D)
<b>United States</b>	Service provider (contract R&D)
<b>Malaysia<sup>1</sup></b>	Shared services provider (contract manufacturing, repair centre, IT support services, customer service admin)
<b>Panama<sup>1</sup></b>	Shared services provider (customer service admin)
<b>Panama<sup>1</sup></b>	Headquarter distributor for Latin America
<b>United Kingdom</b>	Headquarter distributor for EMEA
<b>United States</b>	Headquarter distributor for North America
<b>Canada</b>	Distributor of Cochlear products
<b>China<sup>1</sup></b>	Distributor of Cochlear products
<b>Hong Kong<sup>1</sup></b>	Distributor of Cochlear products
<b>India<sup>1</sup></b>	Distributor of Cochlear products
<b>Japan</b>	Distributor of Cochlear products
<b>Korea<sup>1</sup></b>	Distributor of Cochlear products
<b>New Zealand</b>	Distributor of Cochlear products
<b>Singapore<sup>1</sup></b>	Distributor of Cochlear products
<b>Taiwan<sup>1</sup></b>	Sales support for Cochlear products
<b>Thailand<sup>1</sup></b>	Sales support for Cochlear products

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

# Income taxes disclosed in 2022 Annual Report

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

Cochlear calculates its Effective Tax Rate (ETR) as income tax expense/(benefit) divided by accounting profit/(loss) before income tax. In FY22, Cochlear reported a net profit of \$289.0m.

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

## Reconciliation of accounting profit to income tax expense

Cochlear Limited Consolidated Worldwide Group	2022 \$m	2022 ETR	2021 (Restated) <sup>1</sup> \$m	2021 (Restated) <sup>1</sup> ETR
Net profit	289.1		323.8	
Income tax expense	104.7		38.0	
Profit before income tax	393.8		361.8	
<b>Tax at the Australian tax rate of 30% (2020: 30%)</b>	<b>118.1</b>	<b>30.0%</b>	<b>108.5</b>	<b>30.0%</b>
Add/(less) adjustments for:				
Patent litigation	-		-	
Research and development allowances	(16.5)	(4.2%)	(10.1)	(2.8%)
Net non-deductible/(non-assessable) items	0.3	0.1%	3.2	0.9%
Effects of tax rates in foreign jurisdictions	(4.6)	(1.2%)	(3.2)	(0.9%)
	<b>97.3</b>	<b>24.7%</b>	<b>98.4</b>	<b>27.2%</b>
Patent litigation adjustment for prior year <sup>2</sup>	-	-	(63.5)	(17.6%)
Adjustment for prior years	7.4	1.9%	3.1	0.9%
<b>Income tax expense on profit before income tax</b>	<b>104.7</b>	<b>26.6%</b>	<b>38.0</b>	<b>10.5%</b>

Note 1 - Comparative information has been restated for IFRIC decision on cloud computing costs. Refer to Note 7.6 of the Cochlear Limited Annual Report 2022 for details.

Note 2 - Cochlear Limited prior year adjustment relating to patent litigation following the receipt of a private ruling from the ATO in December 2020.

Cochlear Limited's Australian Tax Consolidated Group	2022 \$m	2022 ETR	2021 (Restated) <sup>1</sup> \$m	2021 (Restated) <sup>1</sup> ETR
Net profit	341.4		283.1	
Income tax expense	91.0		16.4	
Profit before income tax (reported)	432.4		299.5	
Dividends from wholly owned foreign subsidiaries	(95.5)		(45.8)	
Profit before income tax (excluding dividends from wholly owned foreign subsidiaries)	336.9		253.7	
<b>Profit before income tax (reported)</b>	<b>432.4</b>		<b>299.5</b>	
Income tax expense using the Company's domestic tax rate of 30%	129.7	30.0%	89.8	30.0%
Add/(less) adjustments for:				
Patent litigation	-	-	-	-
Research and development allowances	(15.8)	(3.7%)	(8.5)	(2.8%)
Net non-deductible/(non-assessable) items	2.8	0.6%	4.4	1.5%
Controlled foreign company income	2.3	0.5%	2.8	0.9%
Exempt foreign sourced dividends from wholly owned subsidiaries	(28.7)	(6.6%)	(13.7)	(4.6%)
	<b>90.3</b>	<b>20.8%</b>	<b>74.8</b>	<b>25.0%</b>
Patent litigation prior year adjustment <sup>2</sup>	-	-	(63.5)	(21.2%)
Adjustment for prior years	0.7	0.2%	5.1	1.7%
<b>Income tax expense on Australian profit before income tax</b>	<b>91.0</b>	<b>21.0%</b>	<b>16.4</b>	<b>5.5%</b>

Note 1 - Comparative information has been restated for IFRIC decision on cloud computing costs. Refer to Note 7.6 of the Cochlear Limited Annual Report 2022 for details.

Note 2 - Cochlear Limited prior year adjustment relating to patent litigation following the receipt of a private ruling from the ATO in December 2020.

## Reconciliation of income tax expense to cash tax paid

Cochlear Limited Consolidated Worldwide Group	2022 \$m	2021 (Restated) <sup>1</sup> \$m
<b>Income tax expense on profit before income tax</b>	<b>104.7</b>	<b>38.0</b>
Timing differences recognised in deferred tax	14.3	(48.2)
Net (utilisation)/benefit of tax losses recognised in deferred tax	(61.2)	34.4
Current year tax instalments receivable next year <sup>2</sup>	21.1	43.3
Prior year instalments received this year	(52.8)	(53.1)
<b>Cash taxes paid as per statement of cash flows</b>	<b>26.1</b>	<b>14.4</b>

Note 1 - Comparative information has been restated for IFRIC decision on cloud computing costs. Refer to Note 7.6 of the Cochlear Limited Annual Report 2022 for details.

Note 2 - The current tax instalments receivable next year largely represents the expected refund of the Cochlear Limited Australian tax group for FY22 after utilisation of the carry forward tax losses generated in FY20.



## Carried forward tax losses

	2022	2021
	\$m	\$m
<b>Total tax losses brought forward</b>	<b>61.2</b>	<b>26.8</b>
Total losses recognised	-	63.9
Total losses utilised against current taxable income	(61.2)	(29.5)
<b>Total losses carried forward to be utilised in future years</b>	<b>-</b>	<b>61.2</b>

## Effective tax rates for Cochlear Limited Consolidated Worldwide Group

Cochlear Limited Consolidated Worldwide Group	2022	2021
	\$m	(Restated) <sup>1</sup>
		\$m
<b>Income tax expense on profit before income tax</b>	<b>104.7</b>	<b>38.0</b>
Timing differences recognised in deferred tax	(46.9)	(13.8)
Current year tax instalments receivable next year <sup>2</sup>	21.1	43.3
Prior year instalments received this year	(52.8)	(53.1)
<b>Cash taxes paid as per statement of cash flows</b>	<b>26.1</b>	<b>14.4</b>

Note 1 - Comparative information has been restated for IFRIC decision on cloud computing costs. Refer to Note 7.6 of the Cochlear Limited Annual Report 2022 for details.

# Tax contribution summary

In FY22, Cochlear has made the following cash tax payments to Australian and overseas tax authorities:

	Australia \$m	Americas /Canada \$m	EMEA \$m	Asia Pacific \$m	Total Group \$m	2021 \$m
<b>Taxes paid by/(refunded to) Cochlear</b>						
Corporate income tax	(3.6)	12.7	10.6	6.4	26.1	14.4
Employer/payroll taxes	13.0	6.6	10.3	0.1	30.0	36.7
Fringe benefits taxes	0.3	-	-	-	0.3	0.2
<b>Taxes paid by Cochlear</b>	<b>9.7</b>	<b>19.3</b>	<b>20.9</b>	<b>6.5</b>	<b>56.4</b>	<b>51.3</b>
<b>Taxes collected by/(refunded to) Cochlear</b>						
Salary withholding (PAYG/PAYE)	68.0	22.9	21.0	4.1	116.0	105.0
Net GST/VAT remitted/(refunded) <sup>1</sup>	(17.2)	-	(37.2)	(14.5)	(68.9)	(54.5)
Withholding taxes on interest and royalties <sup>2</sup>	1.2	-	-	-	1.2	31.3
<b>Taxes collected by/(refunded to) Cochlear</b>	<b>52.0</b>	<b>22.9</b>	<b>(16.2)</b>	<b>(10.4)</b>	<b>48.3</b>	<b>81.8</b>
<b>Total taxes paid and collected/(refunded)</b>	<b>61.7</b>	<b>42.2</b>	<b>4.7</b>	<b>(3.9)</b>	<b>104.7</b>	<b>133.1</b>
<i>2021</i>	<i>95.1</i>	<i>36.9</i>	<i>(6.0)</i>	<i>7.1</i>	<i>133.1</i>	<i>-</i>

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

Note 2 - In FY21, the majority of the withholding taxes paid related to the patent litigation case.

## Corporate income tax

Cochlear Limited generated tax losses in FY20 which have been carried forward and reduce taxable income in FY21 and FY22.

Pre COVID, Cochlear's corporate income taxes paid in Australia represented approximately 80% of total corporate income taxes paid by the Cochlear Group. Cochlear expects to resume this level of contribution to Australia's economy in future years after utilisation of all tax losses.

# ATO tax transparency disclosures

In December 2021, the Australian Taxation Office published the following taxation information from the Australian tax consolidated group income tax return for 2020:

2020	Cochlear Limited
Total income	\$1,025,182,988
Taxable / net income	\$0
Tax payable	\$0

Taxable income is calculated based on accounting profit adjusted for allowable tax timing and tax permanent differences as provided for in the Australian tax law. Tax payable is then calculated at the corporate income tax rate (30%) of taxable income, reduced by available tax offsets. For Cochlear, the primary tax offset which reduces the tax payable amount is the R&D tax offset however for 2020 there was no tax payable due to taxable income being nil.

Provided below is a summary of Cochlear's tax transparency information since 2018. Additional information has been provided in relation to the ATO tax transparency disclosures to demonstrate how the final tax payable amount is calculated after the R&D tax incentive has been applied.

Cochlear Australian Tax Consolidated Group Tax transparency disclosures	2018 ATO tax transparency disclosures A\$m	2019 ATO tax transparency disclosures A\$m	2020 ATO tax transparency disclosures A\$m	2021 To be published A\$m
<b>Total income published</b>	<b>973.9</b>	<b>996.4</b>	<b>1,025.2</b>	<b>1,080.3</b>
Taxable income <sup>1</sup>	388.6	393.1	0.0	130.4
Tax payable <sup>2</sup>	74.3	73.6	0.0	0.0
Taxable income	288.6	293.1	0.0	29.9
R&D expense (100% add back)	100.0	100.0	-	100.5
<b>Taxable income published</b>	<b>388.6</b>	<b>393.1</b>	<b>0.0</b>	<b>130.4</b>

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

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



# Hear now. And always

As the global leader in implantable hearing solutions, Cochlear is dedicated to helping people with moderate to profound hearing loss experience a life full of hearing. We have provided more than 700,000 implantable devices, helping people of all ages to hear and connect with life's opportunities.

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

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

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

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

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