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AUSTRALIA
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ASX Announcement

22 February 2022

Appendix 4D and Half Year Financial Report

Cochlear Limited provides to the ASX the attached ASX Appendix 4D and the FY22 Half Year Financial Report for the period ended 31 December 2021, under ASX Listing Rule 4.2A.

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This announcement is authorised by the Cochlear Board of Directors.

Appendix 4D

Cochlear Limited
Half Yearly Report
As at 31 December 2021

Results for announcement to the market

		Movement from 31 December 2020		$m
Sales Revenue[1]	up	10%	to	815.3
Total Revenue	up	10%	to	820.7
Earnings before interest and taxes (EBIT)	down	3%	to	234.4
Net profit for the period attributable to members	**down**	**28%**	**to**	**169.3**
Underlying net profit for the period[2]	up	26%	to	157.5
Basic earnings per share (cents)	down	28%	to	257.4
Underlying basic earnings per share (cents)[2]	up	26%	to	239.5
Dividend (dollars)	up	35%	to	$1.55

Net tangible assets per share at 31 December 2021 (cents)[3]	up	9%	to	2,039.5
Net tangible assets per share at 31 December 2020 (cents)				1,877.2

Dividends	Amount per security	Franked amount per security	Conduit foreign income per security
Interim dividend per share (dollars)	$1.55	$0.00	$0.54
Previous corresponding period (dollars)	$1.15	$0.00	$1.15

Record date for determining entitlements to the dividend	29 March 2022
Dividend payment date	21 April 2022

No dividend reinvestment plans were in operation during or since the half-year.

Additional Appendix 4D disclosure requirements can be found in the 31 December 2021 Interim Financial Report lodged with this document. This report is based on the 31 December 2021 Interim Financial Report which has been reviewed by KPMG with the Independent auditor's review report included in the 31 December 2021 Interim Financial Report.

This Appendix 4D and the 31 December 2021 Interim Financial Report should be read in conjunction with the 30 June 2021 Annual Report of Cochlear Limited.

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

[2] Excluding one-off and non-recurring items.

[3] Net tangible assets are net assets less intangible assets.

Cochlear Limited and its controlled entities

ACN 002 618 073

Consolidated Interim Financial Report

31 December 2021

The directors present their report, together with the consolidated interim financial report of the Consolidated Entity (Cochlear), being Cochlear Limited (the Company) and its controlled entities, for the half year ended 31 December 2021 and the independent auditor's review report thereon.

Directors

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

Name	Period of directorship
Non-Executive Directors	
Alison Deans	Chair since August 2021
	Director since January 2015
Yasmin Allen	Director since August 2010
Glen Boreham, AM	Director since January 2015
Sir Michael Daniell, KNZM	Director since January 2020
Michael del Prado	Director since January 2022
Andrew Denver	Director since February 2007
Christine McLoughlin, AM	Director since November 2020
Prof. Bruce Robinson, AC	Director since December 2016
Former Non-Executive Directors	
Rick Holliday-Smith	Chair until August 2021
	Director until August 2021
Abbas Hussain	Director until July 2021
Executive Directors	
Dig Howitt, *CEO & President*	Director since November 2017
	Managing Director since January 2018

Principal activities and review of operations and results

Other than as discussed in this report, there were no significant changes in the nature of operating activities during the half year ended 31 December 2021 and the results of those operations are set out below.

Review of operations

The following provides a summary of Cochlear's performance for the half year ended 31 December 2021.

	31 Dec 2021 $m	31 Dec 2020 $m
Total Revenue	**820.7**	**743.2**
Sales revenue[1]	815.3	742.8
Statutory net profit[2]	**169.3**	**235.7**
Underlying net profit[3]	157.5	124.8
Basic earnings per share (cents)	257.4	358.6
Diluted earnings per share (cents)	257.4	358.6
Underlying basic earnings per share (cents)[3]	239.5	189.9
Interim dividend per share (dollars)	$1.55	$1.15

[1] Sales revenue is the primary revenue reporting measure used by Cochlear for the purpose of assessing revenue performance of the Consolidated Entity. It represents total revenue excluding foreign exchange (FX) contract gains/(losses) on hedged sales of $5.4m (31 December 2020 gains of $0.4m).

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

[3] Excluding one-off and non-recurring items (refer to page 10).

Operational review

$m	HY22	HY21	Change % (reported)	Change % (CC)	Sales Mix
Cochlear implants (units)	18,598	17,377	⬆ 7%		
Sales revenue					
Cochlear implants	457.9	454.7	⬆ 1%	⬆ 2%	56%
Services (sound processor upgrades and other)	256.5	214.9	⬆ 19%	⬆ 21%	32%
Acoustics	100.9	73.2	⬆ 38%	⬆ 40%	12%
Total sales revenue	**815.3**	**742.8**	⬆ 10%	⬆ 12%	**100%**

Cochlear implants

Cochlear implant units increased 7% to 18,598 units, with a decline in developed markets and strong growth in emerging markets. Sales revenue increased 2% in CC to $457.9 million, with a mix shift to the emerging markets.

For **developed markets**, unit volumes declined by 2%. Volumes overall are tracking ahead of pre-COVID levels with continuing variability in performance across countries in response to COVID.

The volume declines were most notable in the US. In HY21 the US achieved record volumes as hospitals recovered quickly from the initial COVID shutdowns, operating at full capacity for implant surgeries. By contrast, HY22 was characterised by many operating theatres running below capacity throughout the half, initially due to the impact of Delta variant hospitalisations, with hospital staffing shortages and the response to the Omicron variant impacting the second quarter. While market growth was constrained, volumes in the US continue to be well ahead of pre-COVID levels. Our strong market share position was retained over the half supported by our market-leading product portfolio and growing suite of service offerings.

Western Europe experienced a solid recovery across the half following a COVID-affected HY21. The rate of recovery however continues to vary by country with intermittent COVID-related restrictions reducing overall operating theatre capacity. Surgery rates are recovering well in the UK, although volumes are still below pre-COVID levels, with Continental Europe volumes exceeding pre-COVID levels for the half. In the Asia Pacific region, Australian volumes were impacted by COVID-driven elective surgery deferrals.

For the **emerging markets**, unit volumes overall increased around 30% with a strong recovery from COVID-related surgery deferrals experienced across most countries. Surgeries in a few countries, including China, are trading above pre-COVID levels. India and Brazil are recovering well although volumes are still materially below pre-COVID levels.

Services

Services revenue increased 21% in CC to $256.5 million, supported by the growing recipient base. Sound processor upgrade revenue experienced a strong lift in demand following the restricted access to clinics during COVID lockdowns. In many cases, clinics allocated greater resources to Services where access to surgeries was limited by COVID.

Acoustics

Acoustics revenue increased by 40% in CC to a record $100.9 million, representing strong demand for new products and a recovery from COVID-related surgery delays. The Cochlear™ Osia® 2 System achieved CE Mark accreditation during the second half of FY21, with the rollout commencing across Western Europe during the half. Demand for the Osia 2 System continues to be strong in the US. The Cochlear™ Baha® 6 Max Sound Processor was launched in the fourth quarter of FY21 and is driving strong demand for sound processor upgrades across all regions.

Progress against strategic priorities

Retain market leadership

Grow the hearing implant market

Deliver consistent revenue and earnings growth

Retain market leadership

The investment in R&D aims to strengthen our leadership position through the development of market-leading technology with many new products and services achieving regulatory approval over the past few years across all parts of the portfolio. For HY22, we invested $99 million in R&D, representing 12% of sales revenue.

Cochlear™ Remote Assist solution: in October we achieved FDA approval for Remote Assist for the Nucleus® and Baha® Systems. Remote Assist allows for remote programming, processor setting adjustments and counselling via a live video session. It forms part of Cochlear's investment in Connected Care technology, enabling consistent, convenient and personalised care across care settings to optimise patient outcomes. Remote Assist will be launched in the US during the second half.

Grow the hearing implant market

Cochlear is focused on driving long-term market growth by transforming the way people understand and treat moderately severe to profound hearing loss through awareness and access activities. During the half we continued to invest in expanding our programs for driving growth of the adults and seniors segment through direct-to-consumer marketing activities and building referrals from hearing aid and ENT (ear, nose and throat) clinics.

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

Building on the World Health Organization's (WHO) first World Report on Hearing, the WHO has now provided guidance for establishing evidence-based programs for hearing screening in different target age-groups, including adults, to facilitate early interventions for ear diseases and hearing loss.[4] This guidance, alongside the International Consensus Paper that provided a global consensus on a minimum standard of care for treating adult hearing loss with a cochlear implant, is aimed at improving the identification and treatment of adult hearing loss.

Over the coming years an international taskforce of leading cochlear implant professionals, academics and cochlear implant users, will deliver clinical guidelines to enable early identification and referral for patients. These guidelines are expected to raise awareness of treatment pathways for both candidates and hearing professionals.

Single-sided deafness indication in the US: market access activities have been focused on expanding indications and reimbursement for our products. In January, Cochlear obtained FDA approval for the treatment of unilateral hearing loss and single-sided deafness (SSD) with a Cochlear™ Nucleus® implant in the US. This approval expands the addressable market with around 60,000 people in the US acquiring SSD every year.[5]

Deliver consistent revenue and earnings growth

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

Underlying net profit increases 26% to $158 million

For HY22, underlying net profit increased 26% to $158 million, driven by the combination of strong sales growth and improved gross margin, with some benefit from lower-than-expected operating expenses. As a result, the underlying net profit margin of 19% was ahead of our 18% longer-term target. The strong recovery in trading delivered record interim sales revenue of $815 million, an increase of 12% in CC, driven by strong demand for sound processor upgrades and new acoustic implant products.

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[4] Hearing Screening: considerations for implementation. https://www.who.int/publications/i/item/9789240032767

[5] Weaver, J. "Single-Sided Deafness: Causes, and Solutions, Take Many Forms." Hearing Journal 68.3 (2015): 20-24. Web. 28 Apr. 2017. http://journals.lww.com/thehearingjournal/Fulltext/2015/03000/Single_Sided_Deafness___Causes,_and_Solutions,.1.aspx

Gross margin increased from 72% to 75% and is back in line with the longer-term target. Operating expenses increased by 13%, 14% in CC, from COVID-affected lows, with continued investment made in R&D, market growth activities, standard of care and market access initiatives. Spending in some areas, including on travel and conferences, continues to be well below pre-COVID levels.

Statutory net profit of $169 million benefits from $12 million in one-off gains

Over the past few years, the innovation fund has made several small investments in companies with novel technologies that may, over the longer term, enhance or leverage our intellectual property. The innovation fund includes investments in Saluda, Nyxoah, EpiMinder, Precisis and Seer Medical. The $12 million after-tax gain primarily reflects the increase in value of our EpiMinder shareholding following a financing round which saw Cochlear invest a further $8 million.

Strong financial position

The balance sheet remains strong with net cash of $506 million and operating cash flows sufficient to fund investing activities and capital expenditure.

An interim dividend of $1.55 per share has been determined, an increase of 35% on last year and representing a payout of 65% of underlying net profit. The dividend is unfranked with the franking balance depleted as a result of the losses incurred by the business in FY20.

Impact to profit & loss from change in recognition of cloud computing investment

In April 2021, the International Financial Reporting Standards Interpretations Committee handed down an accounting interpretation on the treatment of cloud computing arrangements which limits the ability to capitalise customisation and configuration costs related to cloud computing products. As a result, investment in cloud computing has been reclassified from capital expenditure (capex) to operating expenses (opex), effective from FY21. It is important to note that there is no impact to free cash flow from this change.

For HY22, $5.2 million before tax ($3.6 million after tax) of cloud computing-related investment was recognised as opex (previously reported as capex). HY21 financials have been restated to reflect the change with opex increasing by $0.7 million ($0.5 million after tax).

For FY22, we expect around $18-20 million before tax (around $13 million after tax) of cloud computing-related investment to be re-classified from capex to opex. FY21 financials will be restated to reflect the change with opex increasing $3.9 million ($2.7 million after tax).

The lift in the FY22 expense reflects the commencement of a major process transformation and IT systems upgrade, with $100-150 million before tax to be invested over the next four to five years.

FY22 outlook

For FY22, the underlying net profit guidance range has been maintained at $265-285 million, a 13-22% increase on underlying net profit for FY21[6]. Guidance now incorporates cloud computing expenses and anticipates continuing COVID impacts for the balance of the year.

Second half trading to date is tracking in line with the first half, with continuing intermittent COVID-related hospital or region-specific elective surgery restrictions. Operating theatre capacity is also being affected by hospital staffing shortages, an issue that emerged during the second quarter, and which may impact capacity for the balance of the half. As a result, we expect a lower rate of growth for Cochlear implants for the year than originally forecast with growth weighted to Services and Acoustics.

Operating expenses are expected to be weighted to the second half. We will continue our investment in R&D and market growth activities to support long-term market growth, with some acceleration in growth investment and increases in travel-related costs as global mobility increases. In addition, guidance now factors in $18-20 million of cloud investment (pre tax) as a result of the change in accounting treatment from capex to opex. Capex expectations have reduced to factor in this change, declining to around $70 million for FY22. As a result, we expect the net profit margin (inclusive of cloud costs) to remain a little below our longer-term target of 18% for FY22 and FY23.

A more material disruption from COVID that significantly impacts sales remains a risk factor that does not form part of guidance. Despite the ongoing disruption to surgeries caused by COVID, we continue to be confident of the resilience of our hearing implant business over the longer term.

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[6] Based on FY21 net profit (underlying) of $234.0m, which includes a $2.7m adjustment for cloud-related expenses.

Financial review

Profit & loss

$m	HY22	HY21**	Change % (reported)	Change % (CC)
Sales revenue	**815.3**	**742.8**	**10%**	**12%**
Cost of sales	**207.7**	**209.2**	**(1%)**	**0%**
% gross margin	*75%*	*72%*	*3 pts*	*3 pts*
Selling, marketing and general expenses	231.6	209.8	10%	12%
Research and development expenses	98.6	88.4	12%	12%
% of sales revenue	*12%*	*12%*	*0 pts*	*0 pts*
Administration expenses (excluding cloud investment)	65.1	54.2	20%	18%
Administration expenses (cloud investment)	5.2	0.7	643%	643%
Operating expenses	**400.5**	**353.1**	**13%**	**14%**
Other income / (expenses)	5.1	(6.0)		
FX contract gains / (losses)	5.4	0.4		
EBIT (underlying)*	**217.6**	**174.9**	**24%**	**20%**
*% EBIT margin**	*27%*	*24%*		
Net finance expense	3.5	4.5	(22%)	
Income tax expense*	56.6	45.6	24%	
% effective tax rate	*26%*	*27%*		
Underlying net profit*	**157.5**	**124.8**	**26%**	**20%**
*% underlying net profit margin**	*19%*	*17%*		
One-off and non-recurring items (after-tax):				
Innovation fund gains	11.8	34.7		
Patent litigation-related tax & other	-	59.0		
COVID government assistance	-	17.2		
Statutory net profit	**169.3**	**235.7**	**(28%)**	**(30%)**

* Excluding one-off and non-recurring items (refer p10). ** HY21 net profit has been restated to reflect the reclassification of cloud-related investment from capex to opex.

Sales revenue increased 10% (12% in CC) to $815.3 million and underlying net profit increased 26% to $157.5 million. The underlying net profit margin of 19% was above the longer-term target of 18%. Statutory net profit of $169.3 million includes $11.8 million in innovation fund gains after-tax.

Key points of note:

- Cost of sales declined 1% (0% in CC) to $207.7 million with the gross margin increasing three percentage points to 75%, back in line with the longer-term target gross margin;
- Selling, marketing and general expenses increased 10% (up 12% in CC) to $231.6 million reflecting continued investment in market growth activities, standard of care and market access initiatives. Spending in some areas, including on travel and conferences, continues to be well-below pre-COVID levels;
- Investment in R&D increased 12% (12% in CC) to $98.6 million with continued investment made in key R&D projects and development of the product and services pipeline;
- Administration expenses (excluding cloud investment) increased 20% (18% in CC) to $65.1 million and includes increases in IT expenses and higher insurance costs;
- Net finance expenses declined 22% to $3.5 million and includes $3.3 million in lease expenses; and
- The effective tax rate for underlying net profit was 26% and includes a benefit from recent changes to the R&D tax concession.

Cash flow

$m	HY22	HY21**	Change
EBIT (underlying)	217.6	174.9	42.7
Depreciation and amortisation	35.8	35.8	-
Changes in working capital and other	(79.0)	3.3	(82.3)
Cash impact of US$75m AMF payment (pre-tax)	-	(104.4)	104.4
Cash impact of COVID government assistance (pre-tax)	-	24.6	(24.6)
Net interest paid	(3.5)	(4.5)	1.0
Income taxes paid	(45.9)	(42.9)	(3.0)
Operating cash flow	**125.0**	**86.8**	**38.2**
Capital expenditure	(38.1)	(34.6)	(3.5)
Other net investments	(42.3)	(15.6)	(26.7)
Free cash flow	**44.6**	**36.6**	**8.0**
(Outlay) / proceeds from issue of shares	(1.2)	2.0	(3.2)
Dividends paid	(92.1)	-	(92.1)
Other	(10.3)	6.3	(16.6)
Change in net cash – increase / (decrease)	**(59.0)**	**44.9**	**(103.9)**

** HY21 cash flow items have been restated to reflect the reclassification of cloud-related investment from capex to operating cash flows. Free cash flow remains unchanged.

Operating cash flow increased $38.2 million to $125.0 million.

Key points of note:

- Strong sales growth and improved gross margin resulted in a $42.7 million improvement in underlying EBIT;
- The $82.3 million increase in working capital and other reflects a $77.7 million increase in working capital to fund business growth (details in capital employed section);
- Capital expenditure (capex) increased by $3.5 million to $38.1 million, reflecting stay-in-business capex; and
- Other net investments of $42.3 million comprises additional investment in innovation fund investments – Nyxoah and Precisis.

Net cash

$m	Dec21	Jun21	Change
Cash, cash equivalents and term deposits	**553.1**	**609.6**	**(56.5)**
Less: Loans and borrowings			
Current	(2.4)	-	(2.4)
Non-current	(45.1)	(45.0)	(0.1)
Total loans and borrowings	**(47.5)**	**(45.0)**	**(2.5)**
Net cash	**505.6**	**564.6**	**(59.0)**

Net cash decreased by $59.0 million to $505.6 million.

Capital employed

$m	Dec21	Jun21**	Change
Trade receivables	284.8	262.1	22.7
Inventories	238.0	216.1	21.9
Less: Trade payables	(169.8)	(202.9)	33.1
Working capital	**353.0**	**275.3**	**77.7**
*Working capital / sales revenue**	*22%*	*18%*	
Property, plant and equipment	248.0	239.5	8.5
Intangible assets	388.3	385.5	2.8
Investments & other financial assets	239.9	226.8	13.1
Other net liabilities	(5.0)	(2.1)	(2.9)
Capital employed	**1,224.2**	**1,125.0**	**99.2**

* Dec21 calculation based on doubling HY22 sales revenue. ** Jun21 capital employed has been restated to reflect the impact of changes to recognition of cloud computing investments.

Capital employed increased by $99.2 million to $1,224.2 million since June 2021 primarily reflecting the increase in working capital.

Key points of note:

- The $77.7 million increase in working capital comprises a $22.7 million increase in trade receivables resulting from increased sales revenue; a $21.9 million increase in inventory reflecting the building of safety stocks of both finished goods and some componentry; and a $33.1 million reduction in trade payables due primarily to timing of payments; and
- The $13.1 million increase in investments & other financial assets includes cash investments and net revaluation losses for innovation fund investments including Nyxoah, Precisis and EpiMinder.

Dividends

	HY22	HY21	Change %
Interim ordinary dividend (per share)	$1.55	$1.15	35%
% payout ratio (based on underlying net profit)	65%	61%	
% franking	0%	0%	

An interim dividend of $1.55 per share has been determined, an increase of 35% and representing a payout of 65% of underlying net profit. The interim dividend is unfranked. The franking balance was depleted due to losses incurred by the business in FY20.

The ex-dividend date is 28 March 2022. The record date for calculating dividend entitlements is 29 March 2022 with the interim dividend expected to be paid on 21 April 2022.

Notes

Forward-looking statements

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

Non-International Financial Reporting Standards (IFRS) financial measures

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

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

Sales revenue

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

Underlying net profit

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

Constant currency

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

Reconciliation of constant currency net profit

$m	HY22	HY21**	Change %
Underlying net profit	**157.5**	**124.8**	**26%**
FX contract movement		5.0	
Spot exchange rate effect to sales revenue and expenses*		(7.4)	
Balance sheet revaluation*		8.8	
Underlying net profit (CC)	**157.5**	**131.2**	**20%**
One-off net gains	11.8	110.9	
Statutory net profit (CC)	**169.3**	**242.1**	**(30%)**

* HY22 actual v HY21 at HY22 rates. ** HY21 net profit has been restated to reflect the reclassification of cloud-related investment from capex to opex.

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

The lead auditor's independence declaration is set out on page 12 and forms part of the Directors' Report for the half year ended 31 December 2021.

Rounding off

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

Dated at Sydney this 22nd day of February 2022.

Signed in accordance with a resolution of the directors:

Director

Director

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

To: the directors of Cochlear Limited

I declare that, to the best of my knowledge and belief, in relation to the review of Cochlear Limited for the half-year ended 31 December 2021 there have been:

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

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

KPMG

Julian McPherson, Partner
Sydney, 22 February 2022

Interim income statement

	Note	31 Dec 2021 $m	31 Dec 2020 (Restated)[1] $m
Revenue	2.2	820.7	743.2
Cost of sales	2.3	(207.7)	(209.2)
Gross profit		**613.0**	**534.0**
Selling, marketing and general expenses		(231.6)	(209.8)
Research and development expenses		(98.6)	(88.4)
Administration expenses		(70.3)	(54.9)
Other income	2.4	22.5	79.3
Other expense	2.3	(0.6)	(9.4)
Patent litigation expense	2.3	–	(6.4)
Share of losses on equity accounted investments		–	(1.7)
Results from operating activities		**234.4**	**242.7**
Finance income - interest		0.8	2.5
Finance expense - interest		(4.3)	(7.0)
Net finance expense		**(3.5)**	**(4.5)**
Profit before income tax		**230.9**	**238.2**
Income tax expense	3	(61.6)	(2.5)
Net profit		**169.3**	**235.7**
Basic earnings per share (cents)	2.5	257.4	358.6
Diluted earnings per share (cents)	2.5	257.4	358.6

[1] Comparative information throughout these financial statements have been restated for IFRIC decision *Configuration or customisation costs in a cloud computing arrangement*. Refer to Note 1.3 for further details.

The notes on pages 18 to 26 are an integral part of these consolidated interim financial statements.

Interim statement of comprehensive income

	31 Dec 2021	31 Dec 2020 (Restated)[1]
	$m	$m
Net profit	**169.3**	**235.7**
Other comprehensive (loss)/income		
Items that will not be reclassified subsequently to the income statement:		
Financial investments measured at fair value through other comprehensive income, net of tax	(32.2)	(6.1)
Total items that will not be reclassified subsequently to the income statement	**(32.2)**	**(6.1)**
Items that may be reclassified subsequently to the income statement:		
Foreign currency translation differences	5.9	(15.1)
Effective portion of changes in fair value of cash flow hedges, net of tax	(8.2)	18.1
Net change in fair value of cash flow hedges transferred to the income statement, net of tax	(3.8)	(0.3)
Total items that may be reclassified subsequently to the income statement	**(6.1)**	**2.7**
Other comprehensive loss, net of tax	**(38.3)**	**(3.4)**
Total comprehensive income	**131.0**	**232.3**

[1] Comparative information throughout these financial statements have been restated for IFRIC decision *Configuration or customisation costs in a cloud computing arrangement*. Refer to Note 1.3 for further details.

The notes on pages 18 to 26 are an integral part of these consolidated interim financial statements.

Interim balance sheet

	Note	31 Dec 2021 $m	30 Jun 2021 (Restated)[1] $m
Assets			
Cash and cash equivalents		553.1	609.6
Trade and other receivables	4.1	317.7	296.3
Forward exchange contracts		9.6	17.6
Inventories		238.0	216.1
Current tax assets		50.1	69.2
Prepayments		33.5	21.2
Total current assets		**1,202.0**	**1,230.0**
Forward exchange contracts		1.7	3.3
Property, plant and equipment		248.0	239.5
Intangible assets		388.3	385.5
Investments	4.2	180.9	199.5
Other financial assets	4.2	59.0	27.3
Deferred tax assets		165.5	152.0
Right of use asset		186.6	189.0
Total non-current assets		**1,230.0**	**1,196.1**
Total assets		**2,432.0**	**2,426.1**
Liabilities			
Trade and other payables		169.8	202.9
Forward exchange contracts		11.6	4.7
Loans and borrowings	5.1	2.4	–
Current tax liabilities		16.1	12.9
Employee benefit liabilities		76.0	87.9
Provisions		19.8	19.4
Deferred revenue		47.3	42.8
Lease liability		34.6	31.9
Total current liabilities		**377.6**	**402.5**
Trade and other payables		0.5	0.7
Forward exchange contracts		3.9	3.2
Loans and borrowings	5.1	45.1	45.0
Employee benefit liabilities		12.8	12.1
Provisions		30.9	31.0
Deferred tax liabilities		42.3	50.6
Deferred revenue		5.1	4.0
Lease liability		184.0	187.4
Total non-current liabilities		**324.6**	**334.0**
Total liabilities		**702.2**	**736.5**
Net assets		**1,729.8**	**1,689.6**
Equity			
Share capital		1,276.6	1,276.6
Reserves		20.9	57.9
Retained earnings		432.3	355.1
Total equity		**1,729.8**	**1,689.6**

[1] Comparative information throughout these financial statements have been restated for IFRIC decision *Configuration or customisation costs in a cloud computing arrangement*. Refer to Note 1.3 for further details.

The notes on pages 18 to 26 are an integral part of these consolidated interim financial statements.

Interim statement of changes in equity

$m	Issued capital	Translation reserve	Hedging reserve	Fair value reserve	Share-based payment reserve	Retained earnings	Total equity
Balance at 1 July 2020 - Reported	**1,272.4**	**(43.3)**	**0.9**	**(2.9)**	**58.0**	**116.4**	**1,401.5**
Adjustment due to cloud computing arrangements[1]	–	–	–	–	–	(9.4)	(9.4)
Balance at 1 July 2020 - Restated	**1,272.4**	**(43.3)**	**0.9**	**(2.9)**	**58.0**	**107.0**	**1,392.1**
Total comprehensive income / (loss)							
Net profit	–	–	–	–	–	235.7	235.7
Other comprehensive (loss) / income							
Foreign currency translation differences	–	(15.1)	–	–	–	–	(15.1)
Effective portion of changes in fair value of cash flow hedges, net of tax	–	–	18.1	–	–	–	18.1
Net change in fair value of cash flow hedges transferred to the income statement, net of tax	–	–	(0.3)	–	–	–	(0.3)
Financial investments measured at fair value through other comprehensive income, net of tax	–	–	–	(6.1)	–	–	(6.1)
Total other comprehensive loss	**–**	**(15.1)**	**17.8**	**(6.1)**	**–**	**–**	**(3.4)**
Total comprehensive income	**–**	**(15.1)**	**17.8**	**(6.1)**	**–**	**235.7**	**232.3**
Transactions with owners, recorded directly in equity							
Performance rights vested	–	–	–	–	(0.7)	–	(0.7)
Share options exercised	3.8	–	–	–	(1.1)	–	2.7
Share based payment transactions	–	–	–	–	3.4	–	3.4
Deferred tax recognised in equity	–	–	–	–	1.7	–	1.7
Balance at 31 December 2020	**1,276.2**	**(58.4)**	**18.7**	**(9.0)**	**61.3**	**342.7**	**1,631.5**
Balance at 1 July 2021 - Reported	1,276.6	(57.4)	9.1	37.8	68.4	367.2	1,701.7
Adjustment due to cloud computing arrangements[1]	–	–	–	–	–	(12.1)	(12.1)
Balance at 1 July 2021 - Restated	**1,276.6**	**(57.4)**	**9.1**	**37.8**	**68.4**	**355.1**	**1,689.6**
Total comprehensive income/(loss)							
Net profit	–	–	–	–	–	169.3	169.3
Foreign currency translation differences	–	5.9	–	–	–	–	5.9
Effective portion of changes in fair value of cash flow hedges, net of tax	–	–	(8.2)	–	–	–	(8.2)
Net change in fair value of cash flow hedges transferred to the income statement, net of tax	–	–	(3.8)	–	–	–	(3.8)
Financial investments measured at fair value through other comprehensive income, net of tax	–	–	–	(32.2)	–	–	(32.2)
Total other comprehensive loss	**–**	**5.9**	**(12.0)**	**(32.2)**	**–**	**–**	**(38.3)**
Total comprehensive income	**–**	**5.9**	**(12.0)**	**(32.2)**	**–**	**169.3**	**131.0**
Transactions with owners, recorded directly in equity							
Dividends to shareholders	–	–	–	–	–	(92.1)	(92.1)
Performance rights vested	–	–	–	–	(0.7)	–	(0.7)
Share options exercised	–	–	–	–	(0.4)	–	(0.4)
Share based payment transactions	–	–	–	–	4.3	–	4.3
Deferred tax recognised in equity	–	–	–	–	(1.9)	–	(1.9)
Balance at 31 December 2021	**1,276.6**	**(51.5)**	**(2.9)**	**5.6**	**69.7**	**432.3**	**1,729.8**

[1] Comparative information throughout these financial statements have been restated for IFRIC decision *Configuration or customisation costs in a cloud computing arrangement*. Refer to Note 1.3 for further details.

The notes on pages 18 to 26 are an integral part of these consolidated interim financial statements.

Interim statement of cash flows

	31 Dec 2021 $m	31 Dec 2020 (Restated)[1] $m
Cash flows from operating activities		
Cash receipts from customers	804.9	725.7
Cash paid to suppliers and employees	(636.2)	(619.5)
Grant and other income received	5.7	3.4
Government assistance in respect of COVID received	–	24.6
Interest received	0.8	2.5
Interest paid	(4.3)	(7.0)
Income taxes paid	(45.9)	(42.9)
Net cash provided by operating activities	**125.0**	**86.8**
Cash flows from investing activities		
Acquisition of leasehold improvements and plant and equipment	(20.9)	(19.2)
Acquisition of IT system costs	(1.6)	(1.0)
Acquisition of other intangibles	(15.6)	(14.4)
Acquisition of investments	(42.3)	(15.6)
Proceeds from term deposits	–	340.0
Net cash (used in)/provided by investing activities	**(80.4)**	**289.8**
Cash flows from financing activities		
Repayment of borrowings	–	(339.2)
Proceeds from borrowings	2.4	1.7
Payment of lease liability	(12.4)	(10.5)
(Outlay)/Proceeds from exercise of share options and performance rights, net	(1.2)	2.0
Dividends paid	(92.1)	–
Net cash used in financing activities	**(103.3)**	**(346.0)**
Net (decrease)/increase in cash and cash equivalents	(58.7)	30.6
Cash and cash equivalents at 1 July	609.6	565.0
Effect of exchange rate fluctuation on cash held	2.2	(7.9)
Cash and cash equivalents, net of overdrafts at 31 December	**553.1**	**587.7**

[1] Comparative information throughout these financial statements have been restated for IFRIC decision *Configuration or customisation costs in a cloud computing arrangement*. Refer to Note 1.3 for further details.

The notes on pages 18 to 26 are an integral part of these consolidated interim financial statements.

Notes to the Consolidated Interim Financial Report

1. Basis of preparation

1.1 Reporting entity

Cochlear Limited (the Company) is a company domiciled in Australia. The Consolidated Interim Financial Report of the Company as at and for the half year ended 31 December 2021 comprises the Company and its controlled entities (together referred to as Cochlear or the Consolidated Entity). Cochlear is a for-profit entity and operates in the implantable hearing device industry. Cochlear's Consolidated Annual Financial Report as at and for the year ended 30 June 2021 is available upon request from the Company's registered office at 1 University Avenue, Macquarie University NSW 2109, Australia or at www.cochlear.com.

1.2 Statement of compliance

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

The Consolidated Interim Financial Report does not include all of the information required for a full annual financial report and should be read in conjunction with Cochlear's Consolidated Annual Financial Report as at and for the year ended 30 June 2021. This report should also be read in conjunction with any public announcements made by Cochlear Limited during the half year ended 31 December 2021 in accordance with continuous disclosure obligations arising under the *Corporations Act 2001*.

The Consolidated Interim Financial Report was approved by the Board of Directors on 22 February 2022.

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

1.3 Significant accounting policies

Apart from the change noted below, the accounting policies applied by the Consolidated Entity in this Consolidated Interim financial report are the same as those applied by the Consolidated Entity in the Consolidated Annual Financial Report as at and for the year ended 30 June 2021.

Change in accounting policy due to Cloud Computing Arrangements

In April 2021, the International Financial Reporting Standards Interpretations Committee (IFRIC) issued a final agenda decision, *Configuration or customisation costs in a cloud computing arrangement*. The decision discussed whether configuration or customisation expenditure relating to cloud computing arrangements can be recognised as an intangible asset and if not, over what time period the expenditure is expensed.

Cochlear's accounting policy has historically been to capitalise all configuration and customisation costs related to cloud computing arrangements as intangible assets. The adoption of this agenda decision has resulted in a change in accounting policy to expense in profit and loss configuration and customisation costs in cloud computing arrangements. A portion of previously capitalised intangible assets have been reclassified to an expense in the Income Statement, impacting both the current and prior periods presented.

Following the adoption of the new policy, Cochlear has expensed $5.2 million in configuration and customisation expenditure for the half year ended 31 December 2021. These costs have been classified as "administration expenses" in the income statement and $5.2 million in related payments classified as "cash paid to suppliers and employees" in the cash flow statement.

The change in accounting policy has been retrospectively applied and comparative information restated, as follows:

Balance Sheet - Extract

	As at 30 June 2021			As at 1 July 2020		
	Reported $m	Adjustment $m	Restated $m	Reported $m	Adjustment $m	Restated $m
Intangible assets	402.8	(17.3)	385.5	410.3	(13.4)	396.9
Deferred tax asset	146.8	5.2	152.0	147.1	4.0	151.1
Net Assets	**1,701.7**	**(12.1)**	**1,689.6**	**1,401.5**	**(9.4)**	**1,392.1**
Retained earnings	367.2	(12.1)	355.1	116.4	(9.4)	107.0
Equity	**1,701.7**	**(12.1)**	**1,689.6**	**1,401.5**	**(9.4)**	**1,392.1**

Income Statement - Extract

	Half year ended 31 December 2020		
	Reported $m	Adjustment $m	Restated $m
Administration expenses	(54.2)	(0.7)	(54.9)
Profit before income tax	**238.9**	**(0.7)**	**238.2**
Income tax expense	(2.7)	0.2	(2.5)
Net profit	**236.2**	**(0.5)**	**235.7**

Statement of Cash Flows - Extract

	Half year ended 31 December 2020		
	Reported $m	Adjustment $m	Restated $m
Cash paid to suppliers and employees	(618.8)	(0.7)	(619.5)
Net cash provided by operating activities	**87.5**	**(0.7)**	**86.8**
Acquisition of IT system costs	(1.7)	0.7	(1.0)
Net cash provided by investment activities	**289.1**	**0.7**	**289.8**

1.4 Estimates and judgements

The preparation of the Consolidated Interim financial report requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. In preparing this Consolidated Interim financial report, the significant judgements made by management in applying Cochlear's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the Consolidated Annual Financial Report as at and for the year ended 30 June 2021.

1.5 New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for financial years beginning after 1 July 2021 and have not been applied in preparing these consolidated financial statements. These new standards are not expected to have an effect on the consolidated financial statements of Cochlear.

2. Performance for the half year

2.1 Operating segments

	Americas		EMEA[1]		Asia Pacific		Total	
	2021	2020	2021	2020	2021	2020	2021	2020
	$m	$m	$m	$m	$m	$m	$m	$m
Reportable segment revenue	388.4	375.7	286.8	237.6	140.1	129.5	**815.3**	**742.8**
Reportable segment EBIT	213.9	203.2	137.9	100.5	46.3	45.3	**398.1**	**349.0**

1. Europe, Middle East and Africa.

Reconciliations of reportable segment revenues and profit or loss

Revenues	Cochlear implants	Services (sound processor upgrades and other)	Total Cochlear implants	Acoustics	Reportable segment revenue	Foreign exchange gain on hedged sales	Consolidated revenue
	$m	$m	$m	$m	$m	$m	$m
31 Dec 2021	457.9	256.5	**714.4**	100.9	**815.3**	5.4	**820.7**
31 Dec 2020	454.7	214.9	**669.6**	73.2	**742.8**	0.4	**743.2**

Profit or loss	Reportable segment EBIT	Corporate and other net expenses	Foreign exchange gain on hedged sales	Net finance expense	Consolidated profit before income tax
	$m	$m	$m	$m	$m
31 Dec 2021	398.1	(169.1)	5.4	(3.5)	**230.9**
31 Dec 2020	349.0	(106.7)	0.4	(4.5)	**238.2**

2.2 Revenue

	31 Dec 2021	31 Dec 2020
	$m	$m
Sale of goods before hedging	798.6	726.8
Foreign exchange gain on hedged sales	5.4	0.4
Revenue from sale of goods	**804.0**	**727.2**
Rendering of services	16.7	16.0
Total revenue	**820.7**	**743.2**

2.3 Expenses

	31 Dec 2021 $m	31 Dec 2020 $m
(a) Cost of sales		
Carrying amount of inventories recognised as an expense	199.7	197.2
Write-down in value of inventories	4.8	8.0
Other	3.2	4.0
Total cost of sales	**207.7**	**209.2**
(b) Other expenses		
Net foreign exchange loss	0.6	9.4
Total other expenses	**0.6**	**9.4**
(c) Patent litigation expense		
Withholding tax expense	–	29.6
Foreign exchange (gain)	–	(23.2)
Total patent litigation expense	**–**	**6.4**

Patent litigation expense

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

In the prior year, $29.6 million was recognised for withholding tax payable on the settlement amounts paid to AMF and AB following receipt of a private ruling from the ATO in December 2020. The foreign exchange gain of $23.2 million represents the revaluation of balance sheet items related to the patent litigation from 1 July 2020 to 31 December 2020. This included the USD 268 million loan facility for patent litigation at 30 June 2020.

2.4 Other income

	31 Dec 2021 $m	31 Dec 2020 $m
Grant received or due and receivable	1.4	0.9
Government assistance in respect of COVID	–	24.6
Net Fair value change in investments measured at fair value through profit or loss	16.8	51.3
Other	4.3	2.5
Total other income	**22.5**	**79.3**

Due to the impact of COVID in the prior period, Cochlear received $24.6 million in government assistance through Australia's JobKeeper Program and other government programs in countries where Cochlear operates. Cochlear voluntarily repaid the assistance received from these programs in the second half of last year once trading conditions improved.

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

The prior year fair value gain on investments was primarily due to the revaluation of the Nyxoah S.A. investment. In the prior year, Nxyoah completed their Initial Public Offering, resulting in Cochlear's ownership interest falling to 17.9% and the termination of Cochlear's right to appoint a director to the Nyxoah board. As a result of these changes, Cochlear ceased equity-accounting this investment and as required by accounting standards, revalued the investment through profit or loss. A revaluation gain of $33.6 million was recognised in the prior year, being the difference between the fair value and the equity-accounted carrying value at completion of the IPO.

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

2.5 Earnings per share

Basic earnings per share

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

	31 Dec 2021	31 Dec 2020
Net profit attributable to equity holders of the parent entity	$169,300,000	$235,700,000
Weighted average number of ordinary shares (basic):		
Issued ordinary shares at 1 July (number)	65,744,078	65,687,402
Effect of options and performance shares exercised (number)	21,634	35,943
Effect of shares issued under Employee Share Plan (number)	–	–
Weighted average number of ordinary shares (basic)	**65,765,712**	**65,723,345**
Basic earnings per share (cents)	**257.4**	**358.6**

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:

	31 Dec 2021	31 Dec 2020
Net profit attributable to equity holders of the parent entity	$169,300,000	$235,700,000
Weighted average number of ordinary shares (diluted):		
Weighted average number of shares (basic) (number)	65,765,712	65,723,345
Effect of options, performance shares and rights unvested (number)	1,811	307
Weighted average number of ordinary shares (diluted)	**65,767,523**	**65,723,652**
Diluted earnings per share (cents)	**257.4**	**358.6**

2.6 Options and performance rights

The Company has granted options and performance rights to certain employees and key management personnel under the Cochlear Executive Incentive Plan (CEIP). The terms and conditions of the plan are disclosed in the Consolidated Annual Financial Report as at and for the year ended 30 June 2021.

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

Grant date	Exercise price of options	Number of options	Number of performance rights	Contractual life
30 September 2021	–	–	39,288	2 years
20 October 2021[1]	$232.52	80,240	–	5 years
20 October 2021	–	–	19,648	4 years

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

2.7 Dividends

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

	Dollars per share	Total amount $m	Franked/unfranked	Date of payment
31 December 2020				
No final dividend was paid during the six months ended 31 December 2020				
31 December 2021				
Final – ordinary	1.40	92.1	0% Franked	18 October 2021
Subsequent event				
Since the end of the financial year, the directors declared the following dividend:				
Interim – ordinary	1.55	102.0	0% Franked	21 April 2022

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

3. Income taxes

Numerical reconciliation between income tax expense and profit before income tax

	31 Dec 2021 $m	31 Dec 2020 $m
Net profit	169.3	235.7
Income tax expense	61.6	2.5
Profit before income tax	**230.9**	**238.2**
Tax at the Australian tax rate of 30% (Dec 2020: 30%)	69.3	71.5
Add/(less) adjustments for:		
Research and development allowances	(8.2)	(5.0)
Net non-deductible/(non-assessable) items	0.4	2.0
Effect of tax rate in foreign jurisdictions	(2.8)	(2.1)
Patent litigation adjustment for prior year[1]	–	(63.5)
Other adjustments for prior year	2.9	(0.4)
Income tax expense on profit before income tax	**61.6**	**2.5**

1. Cochlear Limited prior year adjustment relating to patent litigation following the receipt of a private ruling from the ATO in December 2020 which clarified the deductibility of elements of the patent litigation expense treated as non-deductible at 30 June 2020.

4. Operating assets and liabilities

4.1 Trade and other receivables

Receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less any allowance under the Expected Credit Loss (ECL) model. The ECL model has not materially changed since 30 June 2021. For further explanation of the ECL approach, refer to the 30 June 2021 annual financial report.

4.2 Investments, equity-accounted investments and other financial assets

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

	Investments $m	Other Financial Assets $m
Balance at 1 July 2021	199.5	27.3
Additions	30.8	11.6
Fair value (loss)/gain measured at fair value through profit or loss	(3.3)	20.1
Fair value loss through other comprehensive income (before tax)	(46.1)	–
Balance at 31 December 2021	**180.9**	**59.0**

At 31 December 2021, $78.4 million (June 2021: $50.0 million) of investments and other financial assets are measured at fair value through profit or loss with the remaining $161.5 million (June 2021: $176.8 million) measured at fair value through other comprehensive income.

Investment in Nyxoah S.A.

In July 2021, Cochlear invested an additional $29.9 million in Nyxoah through its US IPO which saw it achieve a secondary listing on the Nasdaq exchange. At 31 December 2021, the fair value of this investment is $138.7 million (June 2021: $158.8 million) based on the listed share price, resulting in a loss of $50.0 million recognised through other comprehensive income.

4.3 Contingent liabilities

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

Patent infringement claim

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

Patent infringement claims - University of Pittsburgh

In September 2021, the University of Pittsburgh (the "University") filed a complaint for patent infringement against Cochlear in the United States District Court for the Western District of Texas, Waco division. The complaint alleges that Cochlear's Nucleus 6 and Nucleus 7 cochlear implant systems infringe and names Cochlear Limited and USA subsidiaries Cochlear Americas Corporation and Cochlear Clinical Services, LLC as defendants. In December 2021, the defendants filed their answer and counterclaims denying the University's complaint.

The asserted patent (USPN 8,421,274) is related to a wireless energy transfer system. It was filed at the US Patent Office in 2009 and will expire in 2030.

The directors have obtained independent legal advice and are of the opinion that none of Cochlear's products infringe the University's patent and the University's patent is invalid over Cochlear's own prior art. Cochlear's legacy products (ESPrit 3G and Freedom sound processors) practised Cochlear's prior art patent (USPN 7,260,435) that was filed in 2001 and was granted in 2007, well before the filing date of the asserted patent.

Product liability claims

Cochlear is currently, and/or is likely from time to time to be, involved in claims and lawsuits incidental to the ordinary course of business, including claims for damages relating to its products and services.

In addition, Cochlear has received legal claims and lawsuits in various countries including the United States by recipients who have had Cochlear implant CI500 series devices stop functioning for the reason that led to the September 2011 voluntary recall of unimplanted CI500 series devices.

Cochlear carries product liability insurance and has made claims under the policies. The insurers have agreed to indemnify Cochlear in accordance with the terms and conditions of the policies including deductibles and exclusions. In the opinion of the directors, the details of the product liability insurance policies are commercially sensitive and any disclosure of these details may be prejudicial to the interests of Cochlear.

Regulatory actions

Cochlear operates in multiple overseas jurisdictions and is currently, and/or is likely from time to time to be, subject to tax, customs and regulatory reviews, audits and investigations. Individually significant confidential investigation(s) by an authority are not disclosed, as disclosure may prejudice Cochlear.

5. Financial and capital structure

5.1 Loans and Borrowings

	31 Dec 2021 $m	30 Jun 2021 $m
Cash at bank		
Cash and cash equivalents	553.1	609.6
Total cash	**553.1**	**609.6**
Less: Total borrowings		
Current	(2.4)	–
Non-current	(45.1)	(45.0)
Total borrowings	**(47.5)**	**(45.0)**
Net cash	**505.6**	**564.6**

Multi-option bank facilities - Unsecured bank loan

As at December 2021, maturity profile of Cochlear's bank loan facilities are as follows:

Facility type	<1 year term $m	1 - 2 year term $m	2 - 3 year term $m	3 - 4 year term $m	5 - 6 year term $m	Total facilities $m
Committed debt including guarantees	100.0	160.8	–	–	100.0	**360.8**

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

Other credit facilities

Unsecured bank overdrafts

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

Secured bank loan

Cochlear has no secured bank loans.

Bank guarantees

As at 31 December 2021, Cochlear had contingent liability facilities denominated in United States dollars, Euros, Sterling, Indian rupees and New Zealand dollars totalling AUD 9.7 million (June 2021: AUD 9.6 million).

5.2 Financial Instruments

Fair values

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

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

Valuation of financial assets and liabilities

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

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

All of Cochlear's forward exchange contracts were valued using observable market inputs (Level 2) and there were no transfers between levels during the half year.

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

The fair value gains in Note 2.4 were measured using Level 1 and Level 3 inputs. At 31 December 2021, $40.6 million (June 2021: $39.1 million) in investments and $59.0 million (June 2021: $27.3 million) of other financial assets were measured using Level 3 inputs. During the period, no transfers were made into or out of Level 3 of the fair value hierarchy.

6. Other notes

6.1 Events subsequent to reporting date

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

Dividends

For dividends determined after 31 December 2021, see Note 2.7.

Directors' Declaration

In the opinion of the directors of Cochlear Limited:

1. The consolidated financial statements and notes set out on pages 13 to 26 are in accordance with the *Corporations Act 2001*, including:
   a. giving a true and fair view of the Consolidated Entity's financial position as at 31 December 2021, and of its performance, for the six month period ended on that date; and
   b. complying with Australian Accounting Standard AASB 134 *Interim financial reporting* and the *Corporations Regulations 2001*; and
2. There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the directors:

Dated at Sydney this 22nd day of February 2022.

Director

Director

Independent auditor's review report

To the Members of Cochlear Limited

Report on the Consolidated Interim Financial Report

Conclusion

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

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

- giving a true and fair view of the Consolidated Entity's financial position as at 31 December 2021 and of its performance for the half-year ended on that date; and
- complying with *Australian Accounting Standard* AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001.*

The Consolidated Interim Financial Report comprises:

- the interim balance sheet as at 31 December 2021;
- the interim income statement, interim statement of comprehensive income, interim statement of changes in equity and interim statement of cash flows for the half-year ended on that date;
- Notes 1 to 6 comprising a summary of significant accounting policies and other explanatory information; and
- The Directors' Declaration.

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

Basis for Conclusion

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

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

Responsibilities of the Directors for the Consolidated Interim Financial Report

The Directors of the Consolidated Entity are responsible for:

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

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

Our responsibility is to express a conclusion on the Consolidated Interim Financial Report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the Consolidated Interim Financial Report does not comply with the *Corporations Act 2001* including giving a true and fair view of the Consolidated Entity's financial position as at 31 December 2021 and its performance for the half-year ended on that date, and complying with *Australian Accounting Standard* AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

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

KPMG

KPMG

Julian McPherson, *Partner*

Sydney, 22 February 2022